DOCUMENT RESUME

ED 339 831 CE 059 720

TITLE Assisting Dislocated Workers: Alternatives to Layoffs, and the Role of the Employment Service under the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA). Special Report Number 30.

INSTITUTION National Commission for Employment Policy (DOL), Washington, D.C.

PUB DATE Oct 91

NOTE 117p.; For a related report, see CE 059 719.

PUB TYPE Reports - Research/Technical (143)

EDRS PRICE MF01/PC05 Plus Postage.

DESCRIPTORS Adults; *Agency Role; *Dislocated Workers; *Employment Programs; *Employment Services; Federal Aid; Federal Legislation; Federal Programs; *Job Layoff; Program Effectiveness; Public Policy; State Programs; Unemployment; Unemployment Insurance

IDENTIFIERS *Economic Dislocation Worker Adjust Assist Act 1988; *Employment Service

ABSTRACT

This report addresses two concerns of Congress: ways to reduce layoffs and the effectiveness of programs to assist dislocated workers. Section I discusses the reasons for layoffs, economic conditions of the 1980s that led to layoffs, and public policy responses to worker dislocation. Section II describes alternatives to layoffs: short-time compensation programs; state-financed, workplace-based retraining programs; and flexible pay arrangements. Section III describes three federal programs to assist dislocated workers that existed before the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA): the Employment Service, Trade Adjustment Assistance, and programs under Title III of the Job Training Partnership Act. Section IV describes EDWAA, the way EDWAA changed Title III program administration and operation, the ways in which the Trade Act was amended in 1988, and the Worker Adjustment and Retraining Notification Act of 1988. Section V discusses how EDWAA is operating. Particular focus is on the role of the Employment Service in providing services to dislocated workers under EDWAA. Section VI on lessons learned from the 1980s reviews the effects of various factors on dislocated workers' re-employment, such as: unemployment rate, advance notification, rapid intervention by the ES and dislocated worker programs, and types of services offered by dislocated worker programs. Appendixes include 31 endnotes, a list of officials contacted, a glossary, and a 74-item bibliography. (YLB)

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Alternatives to Layoffs, and the Role of the Employment Service under the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA)

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ASSISTING DISLOCATED WORKERS:

Alternatives to Layoffs, and the Role of the Employment Service under the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA)

SPECIAL REPORT NUMBER 30

October 1991

National Commission for Employment Policy

NATIONAL COMMISSION FOR EMPLOYMENT POLICY
1522 K Street, NW, Suite 300
Washington, D.C. 20005

Chairman

October 1991

TO THE PRESIDENT AND THE CONGRESS OF THE UNITED STATES:

On behalf of the National Commission for Employment Policy, I am pleased to submit this report, as mandated in the Omnibus Trade and Competitiveness Act of 1988, on ways to reduce layoffs and to assist workers who have been laid off -- dislocated workers.

In response to the first mandate, this report investigates "alternative techniques for managing production cutbacks without permanently reducing workforces." Due to the number of workers who were dislocated during the 1980s, states and the private sector developed new "alternative techniques." In addition, they used existing techniques more extensively. For example, fourteen states currently have Short-Time Compensation programs (work sharing) and over forty states have employer-based (re)training programs. Within the private sector there are a variety of flexible pay arrangements, including profit-sharing, gain-sharing, employee stock ownership plans, and employee buyouts. Some firms have early retirement plans and cost-cutting teams while other firms have switched product lines rather than close down.

As our report indicates, these programs can reduce layoffs to some extent. Available data are not sufficient to indicate the extent to which layoffs have been reduced due to these programs. However, the information is sufficient to indicate that if the economy should experience a major downturn, the programs are unlikely to reduce substantially the layoffs that firms would need to make in order to remain in business.

In response to Congress's second mandate to the Commission, this report investigates "the role of the Employment Service in implementing programs to enhance services provided under the Economic Dislocation and Worker Adjustment Assistance Act of 1988 (EDWAA)." EDWAA has promoted greater coordination between the Employment Service and JTPA programs for dislocated workers, thereby, enabling them to better meet the needs of these workers.

For example, the Employment Service is one agency typically represented on EDWAA's mandated Rapid Response Teams. These Teams provide employment and training services to workers who have been notified that they are about to be dislocated. Our report indicates that when the Employment Service has a significant role on the Team, as well as adequate funds and qualified staff, the Agency provides valuable job-search and job-referral services to workers. The Employment Service can be effective in hastening the re-employment of dislocated workers when the dislocated workers seek the Agency's assistance.

To some extent, the involvement of the Employment Service in EDWAA programs remains greater on paper than it does in reality; duplication of services between the Employment Service and EDWAA programs continues. However, this should not be surprising since EDWAA has been fully operational for a short period of time. At the state and local levels, the trend is toward providing a comprehensive set of services to dislocated workers in a consolidated and streamlined fashion. It is anticipated that more extensive use will be made of the Employment Service as states continue to enhance their programs of assistance for dislocated workers.

The Commission is issuing two additional reports on the Employment Service. One discusses ways to improve the effectiveness of the Employment Service based on a review of the institutional literature and hearings the Commission held on the topic. The second report contains new empirical research on the Employment Service in Pennsylvania, California, and Missouri, and a related review of the empirical literature on the effectiveness of the Employment Service.

JOHN C. GARTLAND
Chairman
Washington, D.C.

PREFACE

In August 1988, as part of the Omnibus Trade and Competitiveness Act, Congress directed the National Commission for Employment Policy to examine two topics: 1) alternative techniques for managing production cutbacks without permanently reducing workforces and 2) the role of the Employment Service in implementing programs to enhance services for dislocated workers under the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA).

To obtain information on the first topic, the Commission entered into a competitive procurement with Dr. Wayne Vroman, Senior Research Associate, The Urban Institute. Findings from Dr. Vroman's research are included in Section II, "Alternatives to Layoffs."

To obtain information on the second topic, the Commission undertook several steps. First, it gathered background information on the Employment Service through Robert Ainsworth's (Commission staff) review of the literature on the issues facing the Agency. Based on that review, the Commission held two public hearings on ways to improve the Agency's effectiveness. Witnesses included officials of the Employment Service and the Job Training Partnership Act systems, and others knowledgeable about the Employment Service. Findings from the literature review and the hearings are incorporated in this report; a more extensive discussion is given in a separate Commission Research Report, authored by Mr. Ainsworth.

Second, information on the Employment Service was obtained through a review of state plans for the implementation of the Economic Dislocation and Worker Adjustment Assistance Act. Since Program Year 1989 (July 1, 1989 through June 30, 1990) was the first year that EDWAA was fully operational, EDWAA and Employment Service state administrators were contacted early in 1990 to ascertain the extent to which EDWAA's actual implementation reflected its planned implementation. Results are reported in Section V, "EDWAA in Operation." (Appendix A contains information on the transition period, July 1, 1988 - June 30, 1989.) The list of officials contacted is given in Appendix B.

Because EDWAA had been fully operational for a short period of time when this project began, analyses of program outcomes were not possible. Therefore to gain information on likely outcomes due to the involvement of the Employment Service in EDWAA programs, the Commission researched the effectiveness of the Employment Service in serving dislocated workers in the 1980s.

Specifically, the Commission undertook new empirical research on the Employment Service in Pennsylvania, California, and Missouri, and a related review of the empirical literature on the effectiveness of the Agency. These states are noteworthy for differences in their application of the "work test" for Unemployment Insurance recipients (discussed in Section VI). Because the Employment Service is administered by the states, these data had to be obtained for each state individually. The W.E. Upjohn Institute for Employment Research enabled the Commission to sponsor research on Pennsylvania. The Commission received the data from Missouri in the early Fall of 1989 and from California in late 1989. The data bases and computer processing required to prepare the data for analysis are described in Appendix C.

Where appropriate to the particular issue being addressed, results from this empirical work on the Employment Service and the literature review are given in Sections III and VI. A detailed presentation of findings is in a separate Commission Research Report: one section contains Commission-sponsored research on the Pennsylvania Employment Service, undertaken by Dr. Arnold Katz, University of Pittsburgh; another section contains Commission-sponsored research on the Employment Services in California and Missouri, co-authored by Dr. Donald Cox, Fu Associates Ltd., and Dr. Carol Romero of the Commission's staff. A third section, also by Dr. Romero and Dr. Cox, contains findings from the review of the literature.

This report was prepared by Dr. Carol Romero, Robert Ainsworth, Barbara Oakley, and Kathi Ladner of the staff of the National Commission for Employment Policy. Assistance was provided by The W.E. Upjohn Institute for Employment Research.

The Commission expresses its appreciation to Dr. Burt S. Barnow, Vice President of Lewin/ICF, and to Dr. Vincent J. Geraci, on leave to the Commission from the University of Texas-Austin, for their review and comments on this report. The Commission especially wishes to acknowledge the work of Fu Associates Ltd. in computer programming and data analysis.

BARBARA C. MCQUOWN
Director

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EXECUTIVE SUMMARY

In August 1988, as part of the Omnibus Trade and Competitiveness Act, Congress directed the National Commission for Employment Policy to examine two topics: 1) alternative techniques for managing production cutbacks without permanently reducing the workforce and 2) the role of the Employment Service in implementing programs to enhance services to dislocated workers under the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA).

In preparing this report, the Commission gathered information through reviews of the relevant literature; new empirical research on the Employment Service in three states, Pennsylvania, California, and Missouri; and two public hearings on ways to improve the effectiveness of the Employment Service. In addition, over sixty contacts were made to State Dislocated Worker Units and other state employment and training officials.

Background

At the start of the 1980s, many firms throughout the United States experienced a decline in the demand for their products. As a result, the number of workers who were laid off -- became dislocated -- increased and the nation's concern over their joblessness heightened. Efforts were undertaken to find ways to reduce dislocation and to improve the assistance provided to workers who had been dislocated.

By the middle of the decade, nearly 11 million workers were dislocated; about 5 million had 3 or more years tenure with their employers. Although most dislocated workers were white males between the ages of 25 and 54, there was considerable diversity in the dislocated population: there were sizable proportions of both men and women, workers of all ages, and all racial/ethnic groups.

Alternatives To Layoffs

Programs to reduce dislocation became the focus of state governments and the private sector during the 1980s. New programs were instituted and existing ones were expanded. By the middle of the 1980s, there were a variety of programs to reduce layoffs: Short-Time Compensation (also known as "work sharing"); state-financed (re)training programs; flexible pay arrangements, including profit-sharing, gain-sharing, employee stock ownership plans (ESOPs), and employee buyouts; early retirement plans; out-placement assistance programs; as well as such methods as firms' use of cost-cutting teams, temporary workers, and outsourcing. (Outsourcing is the term used to describe the situation in which firms, rather than permanently hiring some workers, temporarily use workers employed by other firms.) In addition, some firms opted to change product lines rather than to close down.

A review of the literature shows varying amounts of information on each of these alternatives. However, because there are no solid evaluations of their effectiveness in reducing layoffs, few general conclusions can be reached. This report's discussion of

alternatives to layoffs emphasizes those alternatives for which there is the greatest amount of information: Short-Time Compensation programs, state-financed (re)training programs, and flexible pay arrangements. Additional alternatives are discussed briefly: firms' use of outsourcing and temporary workers, outplacement assistance, early retirement, and options for changing the experience rating of firms.

Short-Time Compensation Programs

Under Short-Time Compensation programs (STC), rather than being laid off, individuals work fewer hours per week. Workers receive regular pay for the days worked and receive a pro rata share of their weekly unemployment insurance (UI) benefits for days not worked. STC was designed as an alternative to layoffs expected to last short periods of time.

STC is a state-administered program because it is authorized under Unemployment Insurance statutes. As of 1989, fourteen states had STC programs, most of which were developed in the early to mid 1980s.

Evidence on employers' use of STC indicates that its use is greatest at the start of an economic downturn with a rapid decline in its use as economic conditions improve. It appears that most of the layoffs which occur when the unemployment rate is low are not due to the problems STC was designed to address, for example, layoffs due to the seasonality of work or due to the need for cost-cutting measures in order to remain competitive.

In addition, employers using STC often engage in layoffs as well. Whether or not a firm engages in layoffs, STC, or some combination depends upon several factors: the degree of independence of its work units, the comparative ease of administering the two alternatives, and the relative costs and productivity of workers and capital equipment under the two alternatives. There has been no empirical research documenting the relationship of these factors to firms' decisions.

State-Financed Workplace-Based Retraining Programs

Workplace-based retraining is an alternative to permanent layoffs due to changes in a firm's technology and production techniques that make the skills of its workforce obsolete. Training and retraining grew in importance during the 1980s as international competition and the spread of technological change led to the restructuring of firms and industries.

Whether or not firms engage in (re)training rather than layoffs does not necessarily depend upon government actions. However, due to their interest in promoting economic stability and economic development, many states became involved in (re)training programs during the 1980s. At present there are about 70 programs in 46 states; almost half of these programs were established between 1980 and 1985.

About 75% of the programs are relatively small (under $10 million). (California's Employment Training Panel and Illinois' Prairie State 2000 are two of the largest and best known programs.) The majority are not directed at preventing layoffs, but rather they are targeted on new or expanding industries. Only about a dozen states have programs that might be considered targeted on "potentially displaced workers," that is, directed toward reducing layoffs.

While the literature contains descriptive information on states' (re)training programs, few questions about their effectiveness have been addressed. The literature does seem to indicate that the programs do encourage more (re)training than that which would otherwise exist. However, there is no empirical evidence on the extent to which layoffs have been reduced in those firms that used the program. There is also no empirical analysis on the effect that state-financed assistance to one firm has on that firm's competitors. As the (re)training programs become better known to firms, it is possible that, due to resource constraints, the state programs may be forced to choose among industries or among firms within the same industry.

Flexible Pay Arrangements

Flexible pay arrangements refer to compensation packages that are based on the volume of sales rather than the amount of time worked. Forms of flexible pay include: profit-sharing, gain-sharing, and employee stock ownership plans. Employee ownership is a variant of ESOPs. All forms of flexible pay arrangements appear to have increased during the 1980s.

Profit-sharing takes three main forms: cash bonus plans, deferred compensation plans (bonuses paid into employees' retirement funds), and plans that combine the two. Deferred plans are the most prevalent (75% of all profit-sharing plans). In 55% of the profit-sharing plans, employers have discretion regarding the size of the bonuses; 45% of the plans are formula-based. By the end of the 1980s, profit-sharing payments were received by about 20% of all private sector workers.

Gain-sharing programs provide extra pay for workers in a work unit or in a firm as a reward for improvement in an objectively measured standard of group performance. By the end of the 1980s about 5% of private sector workers were covered by gain-sharing plans.

As a means of reducing layoffs, profit-sharing and gain-sharing have more long-term than immediate effects. For example, a shift from wage increases to profit-sharing among a firm's employees would reduce pressures for price increases in the firm's product. This would keep the firm more competitive and reduce the likelihood of future layoffs.

Employee stock ownership plans provide employees with shares of company stock. Typically an employer makes contributions to an employee stock ownership fund and the fund purchases the company's stock. ESOPs are a form of flexible pay because workers' total income is in part determined by the stock's prices and dividends. About 5% of private sector workers were involved in ESOPs by the end of the 1980s. Using majority ownership of a company's stock as the definition of "employee owned," about 2% of private sector workers were employed in employee-owned firms in 1989.

An ESOP's effect on employment stability depends in part on why it was created. Where an ESOP is part of a long-term corporate strategy to encourage workers' interest in the company's economic well-being, the layoff-reducing effects of an ESOP are similar to that of profit- (or gain-) sharing, that is, they are long-term.

Some ESOPs are formed as last minute efforts to keep a plant from closing; in essence they are used as an "employee buyout." During the 1980s over a third of the states enacted legislation to facilitate such "employee buyouts."

The extent to which ESOPs-associated employee buyouts reduce layoffs can not be determined from the available literature. While there are examples of success stories, there are also examples of employee buyouts that were not successful. Now that advance notification of a plant closure is mandated under the Worker Adjustment and Retraining Notification Act of 1988, more workers will have the opportunity to purchase their firms rather than become dislocated workers. However, it is difficult to predict whether employee buyouts will become a major way of establishing ESOPs.

Other Alternatives

While firms' use of early retirement plans, outsourcing, temporary workers, and outplacement assistance serve as alternatives to layoffs for some workers and firms, they are not necessarily useful strategies from an economy-wide perspective. For example, encouraging early retirement may run counter to the nation's current situation of labor shortages. A firm's use of temporary workers and outsourcing may shift the burden of potential layoffs from that firm to the ones supplying the workers. Outplacement assistance is useful as long as there are job openings for which the potentially laid-off workers qualify.

Another alternative is that states could reduce layoffs by changing the experience rating of employers for purposes of calculating their Federal Unemployment Tax Act (FUTA) taxes. Every state has maximum and minimum FUTA tax rates. Within the two limits, and to varying degrees across the states, employers' FUTA tax bills depend upon the amount of UI benefits paid to workers who are laid off.

In determining the amounts of FUTA taxes, "Full experience rating" is a "dollar-for-dollar" link between current UI benefits paid by the state and future taxes paid by the employer. "Imperfect experience rating" is not a dollar-for-dollar link between those employers which are paying the maximum and minimum rates. That is, those firms taxed at the maximum FUTA rate generally will pay less in future taxes than the amount of UI benefits that were paid out by the state to the employers' workers who were laid off.

Under "incomplete" experience rating, employers that are at the maximum tax rate have incentives to lay off more workers than if they were fully charged. At issue is the amount by which layoffs would be reduced if "full" experience ratings were in effect. Evidence from the literature suggests that a movement toward full experience rating would reduce layoffs, however, the size of the effect is likely to be quite small.

Conclusions

Available data are insufficient to indicate the full extent to which programs designed to reduce layoffs have, in fact, reduced layoffs. There have been no evaluations of these programs either separately or in combination.

However, information is sufficient to indicate that such programs are unlikely to reduce layoffs substantially should the economy experience a major downturn. There are two reasons for this conclusion. First, these programs are relatively small in number and scope when viewed from a national perspective. Second, such programs do not make layoffs more difficult than they were previously.

This second point is important from a public policy perspective. If the alternatives made layoffs more difficult, employers would hesitate to lay off their workforce

during economic downturns. However, they also would be slower to hire new employees during subsequent recoveries. The dual effect would be to slow down the pace of both economic downturns and subsequent recoveries.

Programs Available to Dislocated Workers

While states and the private sector were developing alternatives to layoffs during the 1980s, the federal government focused its attention on programs to assist those workers who became dislocated due to mass layoffs or plant closures.

At the start of the 1980s, the Employment Service (ES), the Unemployment Insurance system (UI), and Trade Adjustment Assistance (TAA) were the major federal programs involved in serving dislocated workers. The Trade Adjustment Assistance Act of 1974 was the principal federal program designed specifically to assist these workers. However, TAA provided training, job search, and relocation assistance only to those workers dislocated due to increased imports.

Since the enactment of Wagner-Peyser in 1933, the ES has been responsible for providing labor exchange services to all applicants including dislocated workers. The ES has several other functions as well, including administering the "work test" for recipients of unemployment insurance, food stamps, and Aid to Families with Dependent Children (AFDC) benefits. In conducting the work test, the Employment Service certifies workers' continuing eligibility to receive such benefits. To be eligible for UI, a claimant must be able to work, available for work, and free of disqualification for cause, such as failure to seek work or refusal of suitable employment. While the UI system has a major responsibility in administering the work test, the ES refers UI claimants to job openings and monitors their work search.

The UI system began providing UI benefits to eligible unemployed workers, including dislocated workers, after enactment of the Social Security Act in 1935. Together, the ES and UI systems administer the TAA program.

In 1982, training programs for dislocated workers were introduced through Title III of the Job Training Partnership Act (JTPA). Several years of experience with programs for dislocated workers suggested that some changes were needed so these workers could be better served. In 1988, these changes were introduced in three ways.

First, the Trade Act was amended to require the workers' active participation in training, to expand potential eligibility to certain oil and gas industry workers, and to provide for increased coordination with other training and employment programs.

Second, the Worker Adjustment and Retraining Act -- which mandates advance notification of a mass layoff or plant closure -- was enacted. WARN requires large employers to give 60 days advance notice of a mass layoff or plant closing to both affected workers and the State Dislocated Worker Unit so that such workers can be promptly assisted under EDWAA, as discussed next.

Third, Title III of JTPA was amended by the Economic Dislocation and Worker Adjustment Assistance Act. (EDWAA's first full year of operation began on July 1, 1989.) The amendments changed Title III in several ways. EDWAA mandated states to establish Dislocated Worker Units to

provide rapid response activities and to coordinate services provided by ES, UI, TAA, and the agencies administering JTPA programs.

EDWAA changed the allocation of Title III funds. It requires 80% (rather than 75%) to be given directly to the states based on a funding formula. Second, under previous Title III, there was no provision as to how Governors were to allocate these funds to local areas. EDWAA now requires a Governor to distribute 60% of these funds to sub-state areas as follows:

Fifty percent is distributed at the beginning of the Program Year (PY) based on a formula developed by the Governor. Ten percent is also distributed by the Governor to the sub-state areas during the first nine months of the Program Year either by formula or based on the areas' needs. These funds cannot be spent on state-wide activities.

Finally, the Governor may reserve the remaining 40% of the state's allocation for administration, state-wide programs, rapid response activities, basic readjustment services, needs-related payments, coordination with the Unemployment Insurance system, and enhancing labor-management cooperation.

Through its changes in how funds are to be allocated, EDWAA also places greater emphasis on training services for dislocated workers than the previous JTPA Title III program. It requires that at least 50% of a state's EDWAA funds be spent for training activities. (A sub-state area, however, may request a waiver from the Governor to lower the required percentage from 50% to 30% if it can be determined that basic readjustment services are more beneficial to dislocated workers.)

EDWAA and the Role of the Employment Service

Highlights of EDWAA which are important for understanding the role of the Employment Service in providing services to dislocated workers are:

- authorization of an expanded dislocated worker program which offers the potential for more resources and services, including basic readjustment services;
- rapid response capabilities to assist workers prior to plant closing or mass layoff;
- encouragement of closer cooperation or integration among the Employment Service, the Unemployment Insurance system, and Trade Adjustment Assistance programs;
- expanded eligibility requirements to include ranchers, workers whose jobs were terminated due to substantial layoff, and displaced homemakers;
- a mandated role for sub-state areas -- at least 60% of the state's funds are to be passed through to designated sub-state areas; and
- an emphasis on retraining dislocated workers.

Rapid response to dislocation is carried out through Rapid Response Teams, which typically include representatives from the Unemployment Insurance system, the Employment Service, and the employment

and training programs of EDWAA. These Teams advise dislocated workers about unemployment insurance benefits, services available under the Trade Adjustment Assistance Act, opportunities for job search assistance, job referrals, and retraining programs. In some states the Teams also counsel the workers on how to pay utility bills and meet mortgage payments.

Umbrella Agency and Non-Umbrella Agency States

This report indicates that the Employment Service is more involved in providing services to dislocated workers under EDWAA than it was under the previous Title III program. This is true at both the state and local levels.

Many states have an "umbrella agency" system: employment and training programs are administered by one department composed of the agencies responsible for providing services to dislocated workers under EDWAA. This system is headed by a single administrator who is designated by the Governor and has responsibility for ensuring coordination of all employment and training programs. A review of the 52 state EDWAA plans (including the District of Columbia and Puerto Rico) revealed that 65% of the states had merged existing departments or created new departments as "umbrella agencies" to link ES, UI, TAA, and JTPA services.

The Employment Service has a major role in the delivery of EDWAA services under an umbrella agency system. In over 40 percent of these states, the Employment Service is the lead agency in administering all employment and training programs. In other umbrella agency states the ES has an equal role with the JTPA agency in implementing these programs.

To ensure the coordination of TAA with EDWAA, some umbrella agency states have located the TAA coordinator within the Dislocated Worker Unit which has responsibilites for rapid response activities. Since TAA-eligible applicants are also eligible for EDWAA services, this reorganization of staff provides the coordination intended in EDWAA and TAA.

In addition, several umbrella agency states have initiated a "one-stop shop" concept for providing coordinated employment and training services at the local level, including those of the Employment Service. This was based on the premise that co-location of such services in conjunction with staff having knowledge of all programs would provide the most cost-effective, full-range delivery of services and therefore reduce duplication. As indicated in a review of state plans, examples of states providing "one-stop" service centers are Delaware, Idaho, Indiana, Pennsylvania, New Jersey, New York, North Dakota, South Dakota, and Vermont.

Another approach to "one-stop shops" is the "single point of entry." UI and ES serve as the first point of entry. If training or other support services are needed, dislocated workers are referred to the JTPA program. Examples of such states are Connecticut, Kansas, and Kentucky.

There is an ongoing trend toward state governments establishing umbrella agency systems and variations of "one-stop shopping" centers. For example, Rhode Island's legislature recently created a state Department of Employment and Training to consolidate service delivery. In May 1990, South Carolina became an umbrella agency state when JTPA programs were transferred to the Employment Security Commission.

Also, New York has established "one-stop" service centers in some of its sub-state areas.

Not only does the ES have a major role in EDWAA at the state level in an umbrella agency, but also some states have designated the ES as the sub-state grantee and administrative entity at the local level.

For example, the Governor of Kentucky designated local ES offices as sub-state grantees to make use of existing ES services and thereby avoid duplication of services.

In Kansas, the Private Industry Councils (PICs) and Local Elected Officials (LEOs) selected the Employment Service as the EDWAA grant recipient/administrative entity in 2 of its 5 sub-state areas (SSAs), as did Hawaii in 2 of its 4 sub-state areas, North Carolina in 21 of it 28 SSAs, South Carolina in 4 of its 9 SSAs, Idaho in both of its SSAs, and Minnesota in one of its SSAs.

In states that do not have an umbrella agency system, more than one administrator is involved in implementing and administering employment and training programs. This structure is commonly referred to as a "non-umbrella agency." These states vary in the way employment and training agencies operate and cooperate.

In some non-umbrella agency states, the JTPA agency, utilizing EDWAA's 40% state funds, has a financial contract with the ES for the provision of services to dislocated workers. For example, the Governor of Virginia designated the ES agency as the Dislocated Worker Unit in charge of rapid response activities. The JTPA agency was designated as the Dislocated Worker Unit in Nevada and has contracted with the ES for rapid response activities. Alabama, Mississippi, and Tennessee are examples of states where the ES receives a portion of EDWAA's 40% state funds to provide basic readjustment services.

Also, in some non-umbrella agency states the PICs and LEOs have designated the ES as the sub-state grant recipient/ administrative entity. Examples of these states include Alabama and Tennessee.

In other non-umbrella agency states, the ES may be indirectly involved with the JTPA agency through interagency cooperative agreements. These agreements describe the role of each agency in coordinating the delivery of services to dislocated workers. There are a few states with these agreements where coordination is almost nonexistent between ES and the JTPA agency at the state and local levels even though their plans may indicate otherwise.

Evidence from the 1980s on Likely Outcomes Under EDWAA

Since EDWAA had only been fully operational for a short period of time when this project began, analyses of program outcomes were not possible. However, evidence from experiences during the 1980s indicate that EDWAA's approach to serving dislocated workers is likely to be effective.

First, in the past advance notification alone has hastened dislocated workers' re-employment when other job opportunities were available. A major effect of advance notification has been to enable workers to look for new jobs while they are still employed.

Second, early intervention in the dislocation process has hastened dislocated workers' re-employment in part because it makes the permanency of the layoff "real." Dislocated workers began to look for new jobs sooner than they otherwise would have.

Third, a comprehensive set of services was a key ingredient of successful dislocated worker programs in the 1980s. This included a strong assessment and counseling component since dislocated workers' long-term needs may not be immediately evident at the time of dislocation.

Evidence from the 1980s also indicates that the Employment Service can provide important services to dislocated workers. When the unemployment rate was low, many dislocated workers preferred job search assistance and job referrals, which are largely the province of the Employment Service. When the unemployment rate was high, opportunities for retraining were of greater interest -- programs that are under the aegis of EDWAA.

In addition, when workers voluntarily used the Employment Service, receipt of ES services -- such as job search assistance and job referrals -- was associated with higher probabilities of re-employment. Since use of the services offered by Rapid Response Teams is voluntary, the effect of having the ES on the Teams should be to speed-up dislocated workers' re-employment.

It is when use of the ES is mandatory, for example when the work test is stringently enforced, that dislocated workers' use of the ES appears to have less effect on their subsequent re-employment. This may be because some workers who are required to register with the Employment Service are not interested in using its services or they may not be interested in returning to work. Alternatively, strict administration of the work test may be such a powerful stimulus for finding a new job that it obscures the effects of other ES services on the workers' re-employment.

Conclusions

The Economic Dislocation and Worker Adjustment Assistance Act has been a strong catalyst for improving linkages among programs serving dislocated workers and other applicants. In addition, the Employment Service now has an important role in providing EDWAA services to dislocated workers in most states.

As the legislation intended, EDWAA has facilitated a more comprehensive system for meeting the needs of dislocated workers than that which existed under the previous Title III program of JTPA. By forging closer coordination between the key agencies and programs in most states, much of the duplication in services has been reduced. This is particularly true in those states where an umbrella agency system has been established.

Although the EDWAA program has been operational for a relatively short time, it is likely that dislocated workers are receiving improved services. This can be attributed to two major factors: 1) the early intervention by agencies providing employment and training services, including the Employment Service; and 2) the increasing use of the umbrella agency concept at the state level and the "one-stop service" and "single point of entry" at the local level so that a comprehensive set of services is provided, including those of the Employment Service.

While federal legislation has put in place the basic elements necessary for successful re-employment programs for dislocated workers, not all states have highly effective and comprehensive programs. However, as

the system matures and innovative practices are shared among the states, it is expected that there will be further reductions in the duplication of services and increased cooperation among programs and agencies.

I. INTRODUCTION

In the Omnibus Trade and Competitiveness Act of 1988, Congress directed the National Commission for Employment Policy to examine two issues:

- "alternative techniques for managing production cutbacks without permanently reducing workforces" and
- "the role of the Employment Service [ES] in implementing programs to enhance services provided under this title" (the Economic Dislocation and Worker Adjustment Assistance Act [EDWAA]).

In essence, Congress is concerned with ways of reducing layoffs and with the effectiveness of programs to assist dislocated workers -- persons who have lost their jobs through no fault of their own.

This report addresses these issues. It is divided into six sections. Due to the nature of the report -- its length and the range of programs and agencies that must be both described and analyzed -- each section is self-contained.

The remainder of this section sets the stage for the examination of policies and programs to reduce layoffs and to assist workers who have been permanently laid off, that is, have become dislocated. First, it discusses the various reasons why layoffs occur. Then it describes the economic conditions of the 1980s that led to layoffs throughout the economy which, in turn, led to the development of policies and programs for assisting dislocated workers. So that the appropriateness of these policies and programs for meeting the workers' needs may be ascertained, the section concludes with a brief description of dislocated workers' characteristics.

Section II addresses the first mandate given above. It describes public and private sector programs for reducing layoffs. Also, based on a review of the literature, it discusses what is known and not known about the effectiveness of such programs.

Sections III through VI address the second mandate. Section III describes federal programs to assist dislocated workers that existed before EDWAA: Trade Adjustment Assistance (TAA), programs under Title III of the Job Training Partnership Act (JTPA), and the Employment Service. Section IV describes EDWAA, the way EDWAA changed Title III program administration and operation, and the ways in which the Trade Act was amended in 1988. It also describes the Worker Adjustment and Retraining Notification (WARN) Act of 1988. WARN is a critical adjunct to EDWAA because it mandates advance notification of plant closures and mass layoffs.

Section V discusses how EDWAA is operating. EDWAA became fully operational beginning with Program Year 1989 (July 1, 1989 through June 30, 1990). The particular focus in this section is on the role of the Employment Service in providing services to dislocated workers under EDWAA.

Because data on EDWAA outcomes were not available when this project began, it was

not possible to assess empirically the contributions of the ES for the re-employment of dislocated workers under EDWAA. However, it was possible to glean information from experiences of both the ES and dislocated worker programs in the 1980s in order to shed light on the re-employment prospects of dislocated workers due to EDWAA, WARN, and the involvement of the ES with EDWAA.

"Lessons learned" from the 1980s is the topic of Section VI. It reviews the evidence on the effects of various factors on dislocated workers' re-employment, such as: the unemployment rate, advance notification, rapid intervention by the ES and dislocated worker programs, and the types of services offered by dislocated worker programs, including those of the ES.

Layoffs and Dislocated Workers

Defining Terms

A layoff is a reduction in a firm's workforce. It may be temporary, lasting a few days or several months; or it may be permanent, as when a firm closes down a product line. Layoffs may affect a portion or all of a firm's workforce.

Dislocated workers are a particular group of laid-off workers. On a conceptual level, they are defined as persons who have been permanently laid off, that is, individuals who have no expectation of being recalled. As a practical matter, dislocated workers have been defined in various ways. For example, the Bureau of Labor Statistics (BLS) defines them as workers who had three or more years of job tenure before they were permanently laid off. In contrast, under the previous Title III of JTPA (as well as EDWAA), dislocated workers are defined broadly, including, for example, persons who are unlikely to return to their previous occupation or industry or who are long-term unemployed and have limited opportunities for re-employment in the same or similar occupation in their local area.[1]

Why Layoffs Occur

Often layoffs are discussed in the context of particular events, such as the spread of technological change, increases in international competition, and downturns in the national economy.[2] However, distinguishing among layoffs in this fashion is typically not useful because a layoff can occur for a number of reasons. For example, it may be the direct result of the increased use of "robots" on an assembly line, but the increased use of robots may, in turn, be the result of the need to cut production costs to meet increased foreign competition.

In this report the reasons for layoffs are described in a somewhat different fashion. This perspective permits a better understanding of the different types of layoffs that can occur, their likely magnitude, and duration. Also, it lends insights into the feasibility of an individual firm using an alternative to layoffs and the extent to which alternatives are possible on an economy-wide basis, as discussed in Section II.

For the most part, layoffs occur when there are actual or expected declines in a firm's (or industry's) sales. (An exception to this is a natural disaster which destroys a firm's facility.)

When sales decline, the first response of firms which have inventories (those in manufacturing, mining, and construction) is

to build up their inventories, if possible, until sales begin to increase. When inventories become greater than firms can financially support, production is cut back and workers are laid off.

Service sector firms do not have inventories which could be used to cushion declines in sales. Their first response is to lay off workers, or as a preventative measure, to maintain a relatively small permanent workforce and rely more heavily on temporary workers and outsourcing. (Outsourcing is the term used to describe the situation in which firms, rather than hiring workers to produce their products, rely on other firms for the output.)

If firms anticipate future declines in sales, they will seek ways to prevent the declines; this may mean cutting costs of production or altering their products (or services). In either case, the restructuring may necessitate layoffs.

Reasons for a reduction in sales include: recessions (national or local), declines in areas' populations, shifts in areas' populations from high to low income levels, high product prices or low quality products compared to alternatives, and changes in consumers' preferences for products.

For example, during the early 1980s, American-made products became more expensive than similar products made in other countries due to increases in the price of the dollar. Due to the relatively high prices of U.S. goods, sales of U.S. goods fell compared to sales of goods made elsewhere.

Firms' Responses

When sales drop or are expected to drop for the reasons given above, firms may respond in several ways, as listed below. They may:

- close the facility;
- close and establish a new facility in a different location (for example, in a lower-cost area in the case of a manufacturing firm or in a higher income neighborhood in the case of a retail store);
- keep the facility open, but reduce its size (for example, reduce the amount produced in the case of a manufacturing firm or the amount of floor space in the case of a retail store); or
- keep the facility open and restructure the method of production and/or change the product produced (an example in the service sector would be a retail store that renovated its building and changed the quality of its merchandise).

A combination of these responses may also occur when sales drop. For example, initially, a firm may reduce its output. But if the lower level of sales persists, a firm may close down.

The response a firm selects depends upon the reasons for the decline in sales. For example:

- When a decline in sales is due to a general reduction in demand (due to a recession for example), a firm is likely to lay off all segments of its workforce -- such as management, sales staff, and production workers -- although layoffs will not necessarily occur in equal proportions across the segments. The length of the layoff is likely to be uncertain since, especially at the start

of a recession, firms typically cannot predict how long demand will be weak.

- When a decline in sales is due to a product's relatively high price -- or due to a firm's method of production (which may also be related to the price of its product) -- a plant may close. In this case the entire workforce is permanently laid off. Alternatively, a firm may attempt to recapture its former position in the market by reducing its price through restructuring its method of production. After a restructuring, a smaller workforce may be necessary (implying permanent layoffs for some workers) or a workforce with a different set of skills may be required. In this situation, a firm may choose either to retrain its workers or to lay them off permanently and hire new workers with the requisite skills.

- When a decline in sales is due to consumers shifting away from a product, a firm may respond by a) closing the facility, implying permanent layoffs for its entire workforce; b) reducing its level of operations, implying permanent layoffs for a portion of its workforce; or c) changing the product it produces (sells). Whether there are layoffs under this last alternative depends upon the extent to which the skills of the existing workforce mesh with the skills required to produce the new product.

In reality, firms' responses -- the extent and permanency of their layoffs -- are likely to be more complex than these examples suggest. Greater complexity is due to the fact that firms may use a combination of responses over time. It is also due to the fact that there may be more than one reason for a decline in a firm's sales: there may be several reasons why a firm lays off a group of workers or there may be different reasons for laying off different groups. All of this suggests that for an individual firm to prevent layoffs, more than one alternative may need to be used.

Looking at firms' responses to declining sales from an industry- and economy-wide perspective suggests that a variety of alternatives to layoffs may be needed, or used, at any stage of the business cycle. This possibility exists because, as implied in the previous discussion, a) firms in the same industry can respond differently to the same reason for a decline in demand; b) different firms in the same industry can experience declines in demand for different reasons; c) firms in the same industry do not necessarily experience the same degree of decline in demand; and d) there may be differences across industries in all the above.

Layoffs During the 1980s

A Review of Events

In the early 1980s firms throughout the nation experienced declining demand for their products for two reasons: a) there was a recession and b) American-made products became more expensive than similar products produced in other countries. These reasons were interconnected because both resulted from the federal government's efforts to reduce the rate of inflation (which was over 9% in both 1980 and 1981).[3]

To lower the rate of inflation, the Federal Reserve Bank sought to reduce the nation's demand for goods and services by raising interest rates. The prime rate rose from

almost 13% in 1979 to 15% in 1980, and then to almost 19% in 1981. (The prime rate is the interest rate banks charge their best customers.) This policy reduced the demand for products of virtually all firms in the U.S. -- for firms that sold primarily to households, to other firms, and for firms that were competing in international markets.

For firms that sold primarily to households, sales declined because at high interest rates, fewer consumers were willing to purchase goods for which loans may be necessary -- such as houses, automobiles, and major appliances. These firms experienced a build-up in inventories and ultimately had to reduce their levels of production and engage in layoffs. Investment in additional equipment -- which would mean hiring additional workers -- was not a viable option; the firms could obtain higher rates of return by investing in "liquid capital," for example, stocks and bonds.

For firms that were competing in international markets (such as the automobile and textile industries), sales declined in part because the high interest rates drove the price of the dollar upward, which increased the prices of their products relative to goods produced abroad. (The relatively high interest rates attracted foreign investors, whose demand for U.S. dollars increased the price of the dollar.)[4] As a result, U.S. exports became more expensive than similar products produced in other countries and domestically produced goods became more expensive than imports.[5] These firms laid off workers and also engaged in restructuring of their production methods in order to reduce their costs of production and therefore become more competitive in both domestic and international markets. It was during the early 1980s that the introduction of "robots" onto assembly lines was front page news.

For some firms whose sales depended heavily on other firms' expansion (such as those in the steel industry), sales also declined. Again, there was a build-up in inventories, and ultimately a reduction in the levels of production and employment.

While firms throughout the nation were experiencing difficulties, problems were especially severe in manufacturing and mining companies located in such states as Pennsylvania, Ohio, and Michigan. For example, between 1979 and 1985, manufacturing employment in Pittsburgh declined by 38% compared to 8% nationally.[6]

Problems were also severe in the agricultural sector of midwestern states. Farmers faced a situation similar to that of firms selling in international markets: the high price of the dollar had reduced farmers' ability to sell their products abroad. In addition, the high interest rate increased the cost of servicing farm debts, which had more than quadrupled during the 1970s. Employees were laid off and many self-employed farmers lost their farms and equipment.[7]

By the mid-1980s, the national economy began to recover as interest rates started to fall.[8] While the recovery reduced the rate of layoffs, it did not eliminate them. Firms continued to restructure their methods of production, requiring fewer workers and/or workers with different skills. In addition, a sharp decline in the price of oil led to layoffs within both the oil industry and in those firms which depended upon the prosperity and expansion of the oil industry.

Characteristics of the Dislocated Workers

Altogether, a total of 10.8 million workers 20 years of age and over

> answered [in a survey by the BLS] that they had lost a job between January 1981 and January 1986 because of plant closings, employers going out of business, or layoffs from which they had not been recalled.[9]

Of these people, 5.1 million had 3 or more years of tenure with their employers. It is this group that is most commonly considered to be "dislocated workers."

A comparison of the characteristics of workers dislocated between 1981 and 1986 with those of workers employed at the beginning of the decade (1980) is presented in Table 1. It is this information that policymakers had available to them as they were considering amendments to Title III of JTPA and the possibility of mandating advance notification.[10] These data make several points:

- The "typical" dislocated worker was male (65%), white (87%), and between the ages of 25 and 54 years (73%).
- However, mirroring the employed workforce, there was considerable diversity in the dislocated worker population: there were sizable proportions of both men and women, workers of all ages, and all racial/ethnic groups.
- One group was disproportionately affected by dislocation compared to its proportions of employed workers: persons between the ages of 35 and 64. While this age group constituted 52% of the employed workforce, they were 60% of all dislocated workers.

Table 2 compares the occupational distribution of employed persons in 1980 to that of workers dislocated between 1981 and 1986. These data indicate that, in both relative and absolute terms, workers from "blue collar" jobs were most likely to have been dislocated. For example, the largest group of dislocated workers were employed in semi-skilled jobs included under the category "Operators, Fabricators, and Laborers." While this group accounted for 18% of all employed workers, they accounted for 37% of all dislocated workers.

As also shown in Table 2, there was considerable occupational diversity in the dislocated worker population. Three occupational categories each included 20% or more of all dislocated workers: Technical, Sales, and Administrative Support; Precision Production; and Operators, Fabricators, and Laborers.

Public Policy Responses to Worker Dislocation

At the beginning of the 1980s, there were three major public programs to assist these dislocated workers: a) Trade Adjustment Assistance, which was available only to those workers whose employers had been adversely affected by international competition; b) the Unemployment Insurance system, which provides unemployment compensation to those unemployed workers who are eligible; and c) the Employment Service, which assists any worker looking for a new job.[11]

These programs continued through the 1980s, but the magnitude of the dislocated worker problem led to the emergence of other programs. At the state level and within the private sector, there was an interest in finding ways to reduce the

TABLE 1

Percent Distributio ı of Workers Employed in 1980 and Workers Who Were Dislocated Between 1981 and 1986 by Selected Characteristics

Characteristic	Employed Workers 1980 (a)	Dislocated Workers 1981 - 1986 (b)
Gender		
Male	58.0%	64.7%
Female	42.0	35.3
Age		
20-24 years	15.4%	4.3%
25-34 years	29.7	31.9
35-44 years	21.3	25.8
45-54 years	17.7	19.2
55-64 years	12.6	15.4
65 years and older	3.2	3.3
Race/Ethnicity		
White	88.1%	86.8%
Black	11.9	13.2
Hispanic (c)	5.1	6.1

(a) Workers 20 years of age and older. Source: U.S. Department of Labor, Bureau of Labor Statistics, Labor Force Statistics Derived from the Current Population Survey: A Data Book, Volume I, Bulletin 2096, Washington, D.C., U.S. Government Printing Office, September 1982.

(b) Workers 20 years of age and older with 3 or more years of job tenure. Source: Francis W. Horvath, "The Pulse of Economic Change."

(c) The percent of employed people who are Hispanic is shown separately from the other racial/ethnic groups, since Hispanics may be either white or black.

number of layoffs. At the federal level, the focus was on assisting workers who had been dislocated. Training and job search assistance were provided under Title III of the Job Training Partnership Act of 1982. Toward the end of the 1980s Title III of JTPA was changed significantly by amendments under the Economic Dislocation and Worker Adjustment Assistance Act of 1988. Trade Adjustment Assistance was also amended in 1988. Finally, advance notification of plant closures and mass layoffs was mandated as a result of the Worker Adjustment and Retraining Notification Act. These programs, and their effectiveness, are the topics of the remaining chapters.

TABLE 2

Percent Distribution of Workers Employed in 1980 and Workers Who Were Dislocated Between 1981 and 1986 by Occupation

Occupation	Employed Workers 1980(a)	Dislocated Workers 1981-1986(b)
Managers and Professionals	22.7%	15.2%
Technical, Sales, and Administrative Support	23.1	21.9
Service	12.9	5.0
Precision Production	12.9	19.8
Operators, Fabricators, and Laborers	18.3	36.5
Farming, Forestry, and Fishing	3.0	1.6

(a) Workers 16 years of age and older. Source: Bureau of the Census, 1980 Census of Population, "Occupation by Industry," U.S Department of Commerce, Volume 2, Subject Reports, PC80-2-7C, Washington, D.C., May 1984.

(b) Workers 20 years of age and older with 3 or more years of job tenure. Source: Horvath, "The Pulse of Economic Change." Public Policy Responses to Worker Dislocation

c) the Employment Service, which assists any worker looking for a new job.[11]

ENDNOTES

1. Title III and EDWAA eligibility requirements are discussed in more detail in Section IV.

2. An example of this type of differentiation is seen in the list of "Reasons for Closure or Layoff," U.S. General Accounting Office, Dislocated Workers: Extent of Business Closures, Layoffs, and the Public and Private Response, GAO/HRD-86-116BR, Washington, D.C., July 1986. Also, Trade Adjustment Assistance attempts to differentiate workers who have been dislocated due to foreign competition from workers who have been dislocated for other reasons.

3. Economic Report of the President, U.S. Government Printing Office, Washington, D.C., 1987.

4. For further discussion, see National Commission for Employment Policy, U.S. Employment in an International Economy, Report Number 24, Washington, D.C., June 1988.

5. Among firms selling in international markets, U.S. automobile companies were also experiencing a change in consumers' preferences toward smaller cars, typically produced by foreign companies.

6. Louis Jacobson, "The Effectiveness of the Employment Service in Aiding Dislocated and Other Workers: Evidence from Pennsylvania," Research sponsored by the National Commission for Employment Policy, Washington, D.C., and The W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, February 1990.

7. Philip L. Martin and Alan L. Olmstead, Dislocated Farmers: Number, Distribution and Impacts, National Commission for Employment Policy, Research Report Number 88-01, Washington, D.C., January 1988.

8. The prime rate went from 12.24% in 1984 to just under 9% in 1985, and then to 8.33% in 1986. Economic Report of the President, 1987.

9. Francis W. Horvath, "The Pulse of Economic Change: Displaced Workers of 1981-85," Monthly Labor Review, Volume 110, Number 6, June 1987, pp. 3-12.

10. More recent information on the characteristics of dislocated workers is given in Diane E. Herz, "Worker Displacement in a Period of Rapid Expansion," Monthly Labor Review, Volume 113, Number 5, May 1990, pp. 21-33.

11. For a discussion of other programs for dislocated workers, see Bruce H. Millen, "Providing Assistance to Displaced Workers," Monthly Labor Review, Volume 102, Number 5, May 1979, pp. 17-22.

II. ALTERNATIVES TO LAYOFFS

During the 1980s, there was a growing interest within the private and public sectors in finding ways to reduce the number of layoffs. New programs were implemented and existing ones were used more extensively by both state governments and the private sector, sometimes through union/management contract negotiations. The focus of the federal government was on assisting workers after they had been dislocated, as discussed in Section III.

There are many alternatives to layoffs. At the state level there are "Short-Time Compensation" (work sharing) programs, workplace-based retraining programs, and options for changing the experience rating of employers (for purposes of calculating their Federal Unemployment Tax Act [FUTA] taxes). Within the private sector there are early retirement plans; firms' use of outsourcing and temporary workers; and a variety of flexible pay arrangements, including profit-sharing, gain-sharing, employee stock ownership plans, and employee buyouts. In addition, some firms have established cost-cutting teams; firms have also switched product lines rather than shut down.

A review of the literature shows that the amount of information on these alternatives varies widely.[1] For some, such as state-financed (re)training programs, there is extensive descriptive information; for others, such as cost-cutting teams, there are case studies; and for still others, such as Short-Time Compensation programs, there is both descriptive information and preliminary analysis. However, the literature contains few evaluations of the effectiveness of these programs in reducing layoffs on which conclusions can be based.

This section emphasizes the three alternatives for which the greatest amount of information exists: Short-Time Compensation programs, state-financed workplace-based retraining programs, and the variety of flexible pay arrangements. Additional alternatives are discussed briefly: firms' use of outsourcing and temporary workers, outplacement assistance, early retirement, and options for changing the experience rating of firms. As shall be indicated, these latter options seem to be less viable than the other three as economy-wide alternatives to layoffs.

Even though the alternatives to layoffs have emerged in a piecemeal fashion across states and the private sector, there is a common theme. These alternatives are not designed to prohibit layoffs nor are they designed to make layoffs prohibitively expensive (such as by mandating that employers, unions, and the government approve a layoff before it occurs).[2] Instead, the programs have sought to make alternatives to layoffs more attractive to employers than layoffs.

Short-Time Compensation

A Brief Description

Short-Time Compensation (STC), also called work sharing, is a program under which workers, rather than being laid off for a period of time, work fewer hours.

Workers receive regular pay for the days they work and receive a pro rata share of their weekly unemployment insurance (UI) compensation for days not worked. STC is an alternative to layoffs expected to last a short period of time.[3]

The Tax Equity and Fiscal Responsibility Act of 1982 is the basic Federal statute that authorizes the creation of Short-Time Compensation programs at the state level. STC is a state-administered program because it is authorized under UI statutes. As of 1989, fourteen states had STC programs, most of which were developed in the early to mid 1980s.[4]

The states' UI statutes provide a framework of rules and procedures for individual employers to follow when they create STC programs for their workers. Employers submit STC plans to their state's UI agency: the plans indicate by how much weekly hours will be reduced, which units and workers within the firm will be affected, and how the fringe benefits of participating workers will be affected. If the firm is unionized, the plan must have the union's approval.[5]

Use of Short-Time Compensation

Short-Time Compensation is viewed as an alternative to layoffs that would occur due to temporary declines in demand for a firm's output, as might occur during an economic downturn. Although this seems to be its primary use, STC could be an alternative to layoffs that would occur for other reasons. For example, the first STC plan (in California) was intended to ease the permanent layoffs anticipated among state workers after Proposition 13 was passed.[6] Also, STC could be used by firms needing to reduce output for a brief time because their facility needed renovation or there was a shortage of supplies needed for production.

Evidence on employers' use of STC indicates that a) its use is greatest at the start of an economic downturn with a rapid decline in use as economic conditions improve, and b) employers using STC often engage in layoffs as well.[7]

Data documenting these points are given in Table 3.[8] It shows the ratio of the number of "Equivalent Weeks" of STC claims to the number of weeks of regular UI claims and the unemployment rate for three states over the period 1982-1988. ("Equivalent weeks refer to five-day weeks that are equivalent to claims by regular UI applicants, e.g., five workers each with one day of STC would represent one equivalent week of STC claims."[9]) Of the 14 states with STC, Arizona, California, and Oregon are shown here because they have the longest experience with the program.

The ratio exceeded 1.0 in Arizona in two years. The first time was in 1982, a year of very high unemployment in the state (9.9%) and the first year of the program's operation. The second time was in 1985. In that year the unemployment rate was beginning to rise in the state (from 5.0% to 6.5%), but had not yet peaked (at 6.9% in 1986). This particular pattern of firms' STC usage documents the point that STC seems to be used at the beginning of a downturn, before the extent of the downturn is known. Vroman and Wissoker concluded: "STC employers place less reliance on worksharing and greater reliance on layoffs once they accurately perceive the extent of the cyclical workforce adjustments that are needed."[10]

The declining use of STC compared to layoffs, seen in Table 3, seems to be associated with declines in the unemployment rate. It appears that most of

TABLE 3

The Ratio of STC Equivalent Weeks to Regular UI Weeks Claimed and the Unemployment Rate for Arizona, California, and Oregon, 1982-1988(a)

State and Year	Ratio of STC Weeks to UI Weeks	Unemployment Rate
Arizona		
1982	1.163	9.9
1983	0.941	9.1
1984	0.378	5.0
1985	1.962	6.5
1986	0.600	6.9
1987	0.249	6.2
1988	0.183	6.3
California		
1982	0.581	9.9
1983	0.344	9.7
1984	0.157	7.8
1985	0.523	7.2
1986	0.304	6.7
1987	0.163	5.8
1988	0.151	5.3
Oregon		
1982	0.215	11.5
1983	0.306	10.8
1984	0.092	9.4
1985	0.159	8.8
1986	0.119	8.5
1987	0.015	6.2
1988	0.013	5.8

(a) "Equivalent weeks refer to five day weeks that are equivalent to claims by regular UI applicants, e.g., five workers each with one day of STC would represent one equivalent week of STC claims." (Vroman and Wissoker, "Alternatives," p. 14.)

Sources: U.S. Department of Labor, Unemployment Insurance Service as cited in Vroman and Wissoker, "Alternatives"; and U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, Washington, D.C., May (various years).

the layoffs occur when the unemployment rate is low are not due to the problems STC was designed to address -- short-term declines in output. Instead, the layoffs may be due to the seasonality of the work or due to conditions that permanently reduce the number of workers employers require, such as permanent declines in the demand for firms' products or firms' need to re-structure their operations or re-locate them in lower cost areas.[11] It should be noted, however, that a 1986-87 survey of several hundred corporations indicated that firms intend to make greater use of work-sharing than they had in the past.[12]

The Benefits and Costs to Employers of Using STC

The findings that employers do not use STC heavily and that they sometimes use STC and layoffs simultaneously are likely to be related. Whether a firm engages in layoffs, STC, or some combination depends upon several factors: the degree of independence of its work units, the comparative ease of administering the two alternatives, and the relative costs and productivity of workers and capital equipment under the two alternatives. There has been no empirical research documenting the relationship of these factors to firms' decisions. However, it is reasonable to suggest how firms take these factors into account as they weigh the alternatives.[13]

First, firms with work units that depend upon each other to produce a product would likely treat all workers in a similar fashion; otherwise, there would be no reasonable flow of work. The more independent work units are in the production process, the more likely firms are willing to use STC for one unit and temporary layoffs for another.

Second, for any particular work unit, a firm's decision depends upon the relative costs and productivity of equipment and workers under the two alternatives. The following example illustrates how a firm might weigh the relative efficiencies of operating its equipment.

Suppose a firm producing cans needs to reduce its production by some proportion for a short time. Because the firm has three full-time shifts operating independently over a 24-hour period, it has the choice of eliminating one shift entirely and putting the other two on STC or putting all shifts on STC. Since workers on the three shifts perform the same jobs, the option selected depends not only on comparative savings in the cost of labor, but also on comparative savings in the cost of operating the equipment -- whether it is more efficient to run the plant's equipment continuously, but at a reduced level, or to shut down the equipment for 8 out of every 24 hours and then start it up again. As noted earlier, there has been no empirical research relating capital equipment costs (and savings) to firms' decisions regarding STC versus temporary layoffs.

In addition to weighing the relative costs of operating its equipment, a firm must weigh the relative costs of labor under the two alternatives. In general, STC appears to be less costly to employers than temporary layoffs because of its net impact on labor costs. (Costs of labor include wages, fringe benefits, FUTA taxes, and training.) While STC is more costly in terms of its effects on fringe benefits, this seems to be offset by the lower costs of wages and training.[14]

The cost of fringe benefits is typically greater under STC than temporary layoffs for two reasons. First, the costs of two of the most expensive fringe benefits do not decline -- employer-provided pensions and

health insurance. In 9 of the 14 states with STC programs, full maintenance of fringe benefits is not required for workers on STC, but most employers with STC plans have maintained these benefits.[15]

Second, employers' FUTA tax rates could increase in subsequent years. Payments of STC are financed in the same manner as UI benefits. The employers' FUTA tax rates are partially determined by the UI (and STC) benefits previously paid to their workers. In broad terms, the greater the amount of benefits paid, the higher the subsequent tax rates. (See also the discussion of experience ratings later in this section.) Under STC workers with relatively high wages -- and high UI benefit levels -- as well as those with relatively low wages and benefit levels are affected.

On the other hand, employers have lower wage costs for their affected workers when they use STC than when they engage in a temporary layoff. This occurs because workers at all levels of seniority, and hence pay, have reduced hours of work, as just noted. With a layoff, workers with fewer years of seniority typically become unemployed; those with higher rates of pay continue to work. Also, costs associated with training workers are lower if employers use STC rather than layoffs: new workers do not need to be hired (and trained) after the slowdown in production has passed. Instead, the existing workforce remains intact during the slack work period.

STC, rather than layoffs, may be especially prevalent among skilled workers because the costs associated with laying them off are greater than those associated with laying off semi- or unskilled workers. The costs of laying off skilled workers would be especially high during times of low unemployment due to the greater difficulties of finding qualified new employees to replace them when sales return to normal levels.[16]

There is no empirical evidence on the relative effects of STC versus layoffs on productivity. It is possible that productivity would decline more under STC because the more senior workers (who could be expected to be more productive) work fewer hours as well as the more junior employees. Alternatively, if workers' morale is greater under STC, the productivity declines would be smaller than under layoffs. Employers who have used STC generally seem pleased with the program.[17]

A final factor that firms would consider when weighing the options between a layoff and STC is the relative ease of administering the two alternatives. Implementing a STC program requires developing a plan, receiving union approval (if the firm is unionized), submitting the plan to the state government, and receiving the government's approval. By contrast, none of the above is necessary to engage in a layoff. The amount of "paperwork" associated with using STC may be a reason why the program is used relatively more by large, than small, firms.[18]

The ease of administering layoffs has changed somewhat due to the Worker Adjustment and Retraining Notification (WARN) Act of 1988. Under WARN, firms over a specified size are mandated to give 60 days advance notification of a plant closure or mass layoff. How WARN may change employers' behavior will only be known after several years of experience with both WARN and STC.

The Benefits and Costs to Employees of Using STC

Just as there are costs and benefits to firms in using STC, so too are there costs and

benefits to a firm's employees. Whether or not a union would approve a STC proposal cannot be predicted: STC and layoffs affect workers differently.

On the one hand, STC helps maintain all affected workers' eligibility for UI benefits. Workers who are on STC continue to accumulate earnings that form the basis for the amount of benefits they receive, and their duration, should they be laid off later on.[19] Delaying layoffs through the use of STC would likely reduce the decline in insured unemployment (relative to unemployment) that occurs during the later periods of recessions.[20]

STC can also maintain affected workers' fringe benefits and avoids the psychological distress that is often associated with becoming unemployed. Finally, all workers' earnings are reduced proportionately.

On the other hand, under a layoff, only workers with fewer years of seniority are apt to become unemployed. The more senior workers continue their employment -- receiving their full income and maintaining their benefits. The severity of the problem facing the firm determines both how high up the seniority ladder a layoff would extend and how long a layoff can be expected to last.

Whether or not the more senior workers would be willing to accept a reduced work week through STC is likely to depend upon two factors. The first is their level of pay compared to the UI benefits they would receive. The UI system is structured to provide a proportionately higher level of benefits (relative to earnings) to low-wage workers than to high-wage workers. In a firm that pays low wages to all its workers, seniority may have little effect on workers' preferences.

A second factor affecting more senior workers' willingness to engage in STC is their expectations regarding how the layoff would affect them. The higher up the ladder the layoff extends, and the greater its expected duration, the greater the probability that workers with seniority would prefer STC to a layoff. (However, those firms experiencing difficulties so extreme that their more senior workers would be affected for extended periods may prefer a layoff to STC.)

The Benefits and Costs to States of Using STC

Benefit payments to STC workers affect employer UI reserve balances and experience ratings in the same way as other UI benefit payments. STC could lead to higher UI costs than layoffs because there would be a larger proportion of high-wage (high seniority) workers receiving UI benefits (noted earlier). STC programs are unlikely to affect states' UI trust funds substantially more than UI benefits in the absence of a severe downturn in the nation's economy, as reported by Vroman and Wissoker:

> Particularly in the early years of STC programs there were concerns that STC could have adverse effects on overall UI trust fund balances, balances which were already low due to recessions. These concerns explain why the first STC programs all included special financing provisions. In the years from 1982 through 1984 STC employers in Arizona, California, and Oregon were taxed under special tax schedules which could add a surtax of up to 3.0 percent to their rates vis a vis other covered employers. Concerns about possible adverse effects on state trust funds inhibited

the adoption of STC in states that were experiencing UI financing problems in the early 1980s.

As UI trust fund balances have grown in the mid to late 1980s and as experiences with STC have accumulated, concerns about the effects of STC on fund balances have receded. For example, only four states have special tax rate schedules in 1990. Only one of the eight states that implemented STC after 1985 had a special STC tax provision in 1989.[21]

State-Financed Workplace-Based Retraining Programs

A Brief Description

Workplace-based retraining is an alternative to permanent layoffs occurring because of changes in a firm's technology and production methods which make the skills of its workforce obsolete. Employers have the option of retraining their workers or discharging them and finding new workers with the required skills.

Retraining gained importance during the 1980s as international competition and the spread of technological change led to the restructuring of firms and industries. According to a survey undertaken in 1986-87, employers expected to use retraining more frequently than in the past as a way of improving their competitive positions.[22] In addition, retraining increasingly became part of union/management negotiated agreements. Employer-provided tuition aid "was more than twice as prevalent in 1988 [as] compared to 1980."[23]

Whether or not firms engage in retraining rather than layoffs does not necessarily depend upon government actions. However, due to their interest in promoting economic stability and economic development, an increasing number of state governments became involved in retraining programs over the 1980s.

Most state governments with retraining programs developed them during the 1980s. "Of the approximately 70 state-funded training programs that currently exist in ... 46 states, almost 30 were created between 1980 and 1985."[24] Ten of the programs were established in the late 1980s.

These state programs have been described extensively in the literature, with California's Employment Training Panel and Illinois' Prairie State 2000 being two of the most well known. However, there has been no systematic evaluation of the effectiveness of the various state programs. Because the programs have been described elsewhere, this section includes a general overview of them and highlights issues important to their usefulness as an alternative to layoffs.[25]

Most of the state training programs are relatively small. Funding levels are below $10 million for over 75% of the 46 states with training programs; in 10 states funding is less than $1 million. The highest funding levels are in California ($55 million), Illinois ($37 million), Ohio ($32 million), and Michigan ($25 million).[26]

The state programs are typically financed from general revenues. Some other sources of financing are taxing employers (often a small percentage of their unemployment insurance tax base, for example, 0.1%) and

using a portion of revenues gained through state lotteries.

States vary in the number and types of retraining programs they offer.[27] Some have only one program, while others have several.[28] Some states have programs that target individuals (for example, UI claimants and exhaustees, economically disadvantaged persons, and displaced homemakers) while others have programs for firms and individuals.[29]

The majority of state training programs are not directed at preventing layoffs; instead, they target firms that are in new or expanding industries. Only about a dozen state programs include firms that either explicitly have "potentially dislocated workers," or might be considered to have "potentially dislocated workers," that is, the firms are restructuring, introducing new technologies, or needing to upgrade their employees' skills.[30]

Retraining as an Alternative to Layoffs

While the components of these retraining programs are known, few questions about their effectiveness have been answered. One question for which there is some evidence is: Are states paying for training that companies would have undertaken anyway? The experiences of 6 states suggest that state-financed retraining programs do encourage firms to (re)train their workers. Creticos and Sheets state:

- The retraining programs have an important value in overcoming management uncertainty over the importance of retraining workers for the introduction of new technologies and operational processes.
- The retraining programs generally will expand the scope, shorten the timing, or enlarge the number of workers who participate in the training project.
- State-financed, workplace-based retraining programs may play a major role in encouraging businesses to use training as a strategic change agent and to establish permanent training systems within companies.
- Substitution risks (public sector funds being substituted for private sector funds) are reduced substantially when state programs concentrate their grants on the direct instructional costs of laboratory and classroom training. Substitution risks are greatest when state programs pay companies for wages and salaries of trainees while they are in training. This is especially true for structured, on-site training wherein the trainees are engaged in productive activities that may be indistinguishable from their normal work routines after the introduction of new technologies or work processes.[31]

From the perspective of retraining as an alternative to layoffs, some questions have not been fully addressed: First, by how much do state-financed retraining programs reduce layoffs in the firm receiving this assistance?

Answers to this question are not necessarily straightforward. While it is likely that retraining programs are an alternative to layoffs for some firms introducing new technologies or methods of production, they may not be a viable alternative for other firms (or for all a firm's

workers). Changes in technology can mean that fewer workers are necessary, implying retraining for some and layoffs for others. Also, a firm may change its method of production due to its need to cut costs; an associated cost-cutting measure could be to lay off older -- higher paid -- workers and to hire younger -- less well paid -- workers. Retraining the older workers would not be a viable option in this case.

A second question is: Does assisting one firm enable it to compete more effectively than firms not receiving this assistance, thus leading to layoffs in the other firms? This is an important question because as retraining programs become better known to firms, states may be "faced with a demand for their programs that exceeds available resources."[32] In this case, states may have to choose among firms in the same industry: assisting in the retraining of one firm's workers could result in another firm going out of business. Preventing layoffs in one firm could result in layoffs in a competing firm.[33]

Flexible Pay Arrangements, Including Employee Ownership

A Brief Description

The term flexible pay arrangements, as used here, refers to compensation packages that are based in part on the volume of sales and profits as opposed to compensation that is based solely on time (i.e., dollars per hour or week). Forms of flexible compensation include profit-sharing, gain-sharing, and employee stock ownership plans (ESOPs). Employee ownership is a variant of ESOPs.[34]

These four options are alternatives to layoffs that could occur for any one of several reasons, for example, a decline in demand due to high costs of the product, a change in consumer preferences away from the product, or a general decline in demand, such as occurs during a recession. These options would tend to operate in different ways, with both profit-sharing and gain-sharing having longer term employment-stabilizing effects.

Although data are sketchy, all forms of flexible pay arrangements appear to have increased over the 1980s.[35] Even so, relatively few workers are covered by them. By the late 1980s,

> profit-sharing payments were received by about 20% of workers.... Much of the growth of profit-sharing occurred amongst unionized workers, e.g., auto workers and communication workers, and was associated with so-called concession bargaining of the 1980s.[36]

Also by the end of the decade, around 5% of workers were covered by gain-sharing plans and 5% by ESOPs.[37] Using majority ownership of a company's stock as the definition of "employee ownership," fewer than 2% of private sector wage and salary workers were employed in employee-owned companies in 1989.[38]

Evidence on the effects of profit-sharing and gain-sharing on employment comes primarily from empirical research.[39] Evidence on the effects of ESOPs and employee ownership comes primarily from case studies.[40]

Flexible Pay as an Alternative to Layoffs

Profit-sharing takes three main forms: cash bonus plans, deferred compensation plans (where employer bonuses are paid into a retirement fund to be taxed as they are withdrawn during retirement), and combination plans (which pay both cash and deferred bonuses). Deferred plans account for over 75% of profit-sharing plans; fewer than 5% are cash bonuses; and fewer than 20% are a combination of the two. In the majority of profit-sharing plans (55%), employers have discretion as to the size of the bonuses; formula-based profit-sharing occurs in 45% of the plans.[41]

Gain-sharing provides cash payments for all workers in an establishment or those in a large work unit. While there are many types of gain-sharing arrangements, their common feature is to provide extra pay for all individuals in the work unit as a reward for improvement in an objectively measured standard of group performance. For example, a firm switching product lines due to changing consumer preferences could institute gain-sharing to encourage quality control with the new product. This would prevent layoffs that might otherwise occur because consumers were not purchasing a product because it was not well made.

Profit-sharing as a means of reducing layoffs has more long-term than immediate effects. For example, and as noted above, it has been offered in lieu of wage increases during union/management contract negotiations. Long after a contract is ratified, a shift toward profit-sharing would reduce pressures for price increases in the firm's product due to wage increases. This would keep the firm more competitive than it would otherwise have been, and would reduce the likelihood of future layoffs.

Of the several flexible pay arrangements that are alternatives to layoffs, profit-sharing is the most likely to stabilize employment over the long term since workers take reduced pay (in the form of smaller bonuses) instead of reduced hours (layoffs or STC) when output declines. However, the extent to which workers would be interested in profit-sharing depends in part on whether the amount of employers' contributions are formula-based or at the discretion of employers. To the extent the amount is at the discretion of employers, workers are less able to estimate accurately their annual incomes and thus plan for ways to meet household bills. It is possible that workers would prefer to risk the possibility of a future layoff because with a layoff comes receipt of Unemployment Insurance benefits.

Employee stock ownership plans provide employees with shares of company stock, often at below-market prices. ESOPs are structured to have an employee stock ownership trust fund. They are one type of flexible pay arrangement because workers' total income is in part determined by the stock's prices and dividends.

There are different types of ESOPs. For example, prior to 1986 there were ESOPs based on deductions from workers' wages (PAYSOPs). (Due to changes in tax laws, there are few PAYSOPs currently.) The more common form is an ESOP based on employer contributions to the fund. The fund purchases the stock, frequently with borrowed money; the company guarantees repayment of the principal and interest.

An ESOP's effect on employment stability depends in part on the reason it was instituted. Where it is part of a long-term corporate strategy to encourage workers' interest in the company's economic well-being, the layoff-reducing effects of an

ESOP are similar to that of profit-sharing, that is, they occur over the long term. A difference is that instead of sharing in profits directly through employer contributions, workers share in profits indirectly, through stock prices and dividends.

Some ESOPs are formed as last minute efforts to keep a plant from closing.[42] During the 1980s close to twenty states enacted legislation to facilitate such "employee buyouts." These state programs offer combinations of technical and financial assistance, and assistance in obtaining financing from private sector lenders. Some include the development of cost-benefit analyses to determine the economic viability of the firm.[43]

The extent to which ESOPs established due to employee buyouts reduce layoffs cannot be ascertained from the available literature.[44] While there are examples of employee buyouts with successful outcomes (Weirton Steel), there are also examples of employee buyouts that were not successful (Rath Packing). Whether or not these types of ESOPs can be successful depends first on lenders' willingness to assist a firm that may be in financial difficulties. Additional elements of successful ESOPs appear to be good working relationships between management and workers, workers' participation in the firm's decision-making process, and profit-sharing plans.

Even when these elements are present, ESOPs can experience difficulties. "One problem is that ESOPs have to be highly leveraged to take full advantage of tax breaks, since these breaks are debt-related. This makes ESOPs especially vulnerable to an economic downturn."[45]

Now that advance notification of a plant closure is mandated under the Worker Adjustment and Retraining Notification Act of 1988, more workers will have the opportunity to purchase their firms rather than to become dislocated workers. However, whether this becomes a major way of establishing ESOPs is difficult to predict. In the past "employee buyouts of failing companies represent[ed] the most publicized of the uses of ESOPs, even though it [was] one of the least common."[46]

Other Alternatives

Other alternatives to layoffs include: firms' use of temporary workers and outsourcing, out-placement assistance for workers who otherwise would be laid off, special early retirement plans, and movement toward full experience rating of firms in calculating their FUTA taxes. (Outsourcing is the term used to describe the situation in which firms, rather than permanently hiring some workers, use the services of other firms.) These options are less useful as alternatives to layoffs than those previously discussed for various reasons.

First, while use of temporary workers and outsourcing can be an alternative for some firms and workers, it does not necessarily reduce layoffs from an economy-wide perspective. A firm using outsourcing when it experiences a decline in demand can maintain its own workforce; but, by doing so, it transfers the impact of the decline onto other firms' workers. (To the extent the outsourcing is with firms outside the U.S., adverse effects on U.S. workers are reduced. However, the point remains: somewhere some workers are likely to be laid off and the economies of these other nations may suffer.) Use of temporary workers would have a similar effect: a firm's core workforce is maintained while temporary workers are laid off.

Out-placement assistance is in some ways comparable to the programs offered under WARN and EDWAA to soon-to-be dislocated workers. With out-placement assistance, workers are given help in finding new jobs. This assistance is a viable alternative to layoffs as long as there are vacancies in other firms for which the workers are qualified.

Early retirement may also be an alternative for some workers and some firms. However, from an economy-wide perspective, there is more of an emphasis on encouraging later retirement due in part to concerns over labor shortages. In addition, due to the aging of the baby boom population and advances in medical technologies, the nation must remain cognizant of possible future pressures on the Social Security system. Such pressures could occur if more workers reduce their contributions to the Social Security system by retiring early.[47]

Finally, incomplete experience ratings of firms for purposes of calculating their FUTA taxes can lead to employers' increased use of layoffs. Every state has maximum and minimum FUTA tax rates. Within the two limits, and to varying degrees across states, employers' FUTA tax bills depend on the amount of UI benefits they paid to workers they have laid off and for which they are held responsible (or charged). "Full experience rating" would mean that there is a "dollar for dollar link between present [UI] benefits and future taxes.... Imperfect [or incomplete] experience rating ...means that a one dollar increase in [UI] benefits causes future (undiscounted) UI taxes to increase by something other than one dollar, i.e., those taxed at the maximum rate will pay less than one dollar while those at lower tax rates may even pay more than one dollar...."[48]

Under imperfect experience rating, firms that are at the maximum tax rate may not be fully charged for all the UI benefits paid to their laid off workers. Because these firms are already at the maximum tax rate, they have incentives to lay off more workers than if they were fully charged. At issue is the amount by which layoffs would be reduced if full experience rating were in effect. A recent review of the evidence indicates:

> ... it would seem that movement towards full experience rating would reduce the amount of turnover in the labor force. The size of the effect, even under a UI tax system with full experience rating, however, might be quite small. Empirical research into the question is not fully convincing. Also, a consideration of all the labor costs incurred by employers provides a basis for skepticism regarding claims of large effects on turnover from full experience rating. Payroll tax incidence questions provide a third basis for skepticism about assertions of large reductions in labor turnover arising from full experience rating.[49]

Conclusions

Most firms engage in layoffs because the alternative is a reduction in profits. Some firms may close plants that are making a profit because they can achieve higher rates of return through other means. However, for the most part, layoffs occur for other reasons. For example, the work may be seasonal; increased competition may be creating a need for cost-cutting measures; consumers' tastes may be shifting away from the firms' products; and/or there may be an economic downturn. In short, layoffs

are one characteristic of a free market economy.

While not all layoffs can be prevented, some can be. As a result of the dislocation problems of the 1980s, some states and firms developed programs designed to reduce the number of layoffs.

It is not possible with available data to estimate the amount by which layoffs have been reduced due to these alternatives. However, for several reasons they are unlikely to reduce unemployment substantially should the economy experience a major downturn. The programs are relatively small when considered from a national perspective; they are not designed to reduce layoffs associated with major economic changes; and they do not make the layoffs more difficult than in the past.

This last point is important from a public policy perspective. If the alternatives (or WARN) make layoffs more difficult, employers would hesitate to lay off their workforce during economic downturns. However, they also would be slower to hire new employees during subsequent recoveries. The dual effect would be to slow down the pace of both economic downturns and subsequent recoveries.

ENDNOTES

1. For example, see Wayne Vroman and Douglas Wissoker, "Alternatives for Managing Production Cutbacks," Research sponsored by the National Commission for Employment Policy, February 1990; Burt Barnow, Amy B. Chasanov, and Abhay Pande, Financial Incentives for Employer-Provided Worker Training: A Review of Relevant Experience in the U.S. and Abroad, Report prepared for the U.S. Department of Labor, Employment and Training Administration, Urban Institute Policy Memorandum, Washington, D.C., April 2, 1990; and Duane Leigh, Assisting Displaced Workers: Do the States Have a Better Idea?, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 1989.

2. For example, see the brief description of labor market policies in the Federal Republic of Germany, Carol L. Jusenius and Burkhard von Rabeneau, "Unemployment Statistics: Problems of International Comparisons," Data Collection, Processing and Presentation: National and Local, National Commission on Employment and Unemployment Statistics, Counting the Labor Force Appendix Volume II, Washington, D.C., 1979, p. 583.

3. It should be noted that firms have always had the option of assigning workers to part-time status (furloughs) without the workers receiving unemployment insurance payments.

4. The states are Arizona, Arkansas, California, Florida, Kansas, Louisiana, Maryland, Massachusetts, Missouri, New York, Oregon, Texas, Vermont, and Washington.

5. See examples of state legislation given in U.S. Department of Labor, Employment and Training Administration, Short-Time Compensation: A Handbook of Basic Source Material, Occasional Paper 87-2, Washington, D.C., 1987.

6. William Greene, "Unemployment Insurance, Short-Time Compensation, and the Workweek: A Comment," Work Time and Employment, National Commission for Manpower Policy, Special Report Number 28, Washington, D.C., October 1978.

7. See Vroman and Wissoker, "Alternatives."

8. Vroman and Wissoker view these ratios as "low" in nearly all cases, implying that STC has not been widely used.

9. Vroman and Wissoker, "Alternatives," p. 14.

10. Vroman and Wissoker, "Alternatives," p. 17.

11. Job loss due to plant closures was more common during the period 1983 to 1987 when the unemployment rate was rising than it was between 1979 and 1983 when the unemployment rate was falling. See Diane E. Herz, "Worker Displacement in a Period of Rapid Expansion," Monthly Labor Review, Volume 113, Number 5, May 1990, pp. 21-33. Numbers of separations and mass layoffs in 1988 according to reasons for the events are given

in U.S. Department of Labor, Bureau of Labor Statistics, Mass Layoffs in 1988, Bulletin 2344, Washington, D.C., November 1989, Table 3, p. 6.

12. U.S. Department of Labor, Bureau of Labor-Management Relations and Cooperative Programs, Human Resource Policies and Practices in American Firms, BLMR 137, Washington, D.C., 1989.

13. This discussion is based on Vroman and Wissoker, "Alternatives"; Daniel Hamermesh, "Unemployment Insurance, Short-Time Compensation and the Workweek," Work Time and Employment, National Commission for Employment Policy, Special Report Number 28, Washington, D.C., October 1978; and Gary B. Hansen, "Promoting Alternatives for Preventing Layoffs and Plant Closings under EDWAA: An Overview and Resource List for State Dislocated Worker Units," Utah State University, Logan, Utah, July 1, 1989.

14. This discussion is based on Vroman and Wissoker, "Alternatives."

15. Vroman and Wissoker, "Alternatives."

16. Two of the benefits to firms of using STC mentioned in Hansen, "Promoting Alternatives," are: "Retention of skilled workers" and "Avoidance of post recession costs of hiring and training new workers to replace those who found other jobs during layoff." No mention is made of the benefits of retaining semi- skilled or unskilled workers. p. 10.

17. U.S. Department of Labor, Short-Time Compensation.

18. See the state guidelines for the information that is required in STC plans in U.S. Department of Labor, Short-Time Compensation.

19. Workers may be eligible for UI benefits when they are laid off depending upon their earnings and/or employment in the "base period" (usually the twelve-month period ending zero to six months before a layoff). If the workers are found to be eligible, the weekly benefit amount and potential duration of benefits are determined. Both the amount and the duration depend in part upon the worker's base period earnings and/or employment record.

20. Vroman and Wissoker, "Alternatives."

21. Vroman and Wissoker, "Alternatives," pp. 12-14.

22. U.S. Department of Labor, Human Resource Policies.

23. Of workers covered by union contracts, 33% were covered by employer-provided tuition in 1988 compared to 13% in 1980. Vroman and Wissoker, "Alternatives," p. 35.

24. Barnow, Chasanov, and Pande, Financial Incentives, p. 17.

25. Barnow, Chasanov, and Pande, Financial Incentives; Vroman and Wissoker, "Alternatives,"; Leigh, Assisting Displaced Workers; and Peter Creticos and Robert Sheets,

Evaluating State-Financed Workplace-Based Retraining Programs: A Report on the Feasibility of a Business Screening and Performance Outcome Evaluation System, National Commission for Employment Policy, Research Report Number 89-08, Washington, D.C., May 1990.

26. Barnow, Chasanov, and Pande, Financial Incentives, p. 17.

27. This description of states' programs is based on Barnow, Chasanov, and Pande, Financial Incentives, Appendix A.

28. Examples of states with one program are Alabama, Kentucky, and Nebraska; Illinois, New York, Ohio, and Oklahoma are examples of states with more than one program.

29. For example, Nevada and New Jersey have programs that target on individuals; Michigan and California have programs for firms and individuals.

30. Examples of these states are California, Illinois, Idaho, Michigan, New York, North Carolina and Oklahoma.

31. Creticos and Sheets, Evaluating State-Financed Workplace-Based Retraining Programs, pp. 57-59.

32. Barnow, Chasanov, and Pande, Financial Incentives, p. 29.

33. For example, see "Packing Plant Closures Sparked by Competition, Loans, Officials Say," Employment and Training Reporter, Volume 21, Number 37, May 30, 1990, pp. 872-3.

34. The discussion below relies heavily on Vroman and Wissoker, "Alternatives."

35. Cost cutting teams also appear to be increasing in number. However, the evidence on their experiences and effectiveness is quite limited. One source is Sally Klingel and Ann Martin, editors, A Fighting Chance: New Strategies to Save Jobs and Reduce Costs, Industrial and Labor Relations Press, Cornell University, Ithaca, New York, 1988.

36. Vroman and Wissoker, "Alternatives," pp. 40-41.

37. Vroman and Wissoker, "Alternatives," p. 43.

38. Vroman and Wissoker, "Alternatives," p. 50.

39. A summary of this research is provided in Vroman and Wissoker, "Alternatives."

40. For example, see Leigh, Assisting Displaced Workers; and Paul Gerhart, Saving Plants and Jobs: Union Management Negotiations in the Context of Threatened Plant Closing, The W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 1987. For a case study comparison of worker buyouts versus flexible pay arrangements, see Arthur Hochner,

et al, Job Saving Strategies: Worker Buyouts and QWL, The W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 1989.

41. Vroman and Wisskoker, "Alternatives," p. 40.

42. See the discussion in Gerhart, Saving Plants and Jobs.

43. Leigh, Assisting Displaced Workers, pp. 121-122.

44. See the discussion in Leigh, Assisting Displaced Workers.

45. Leigh, Assisting Displaced Workers, p. 125.

46. Leigh, Assisting Displaced Workers, p. 123.

47. National Commission for Employment Policy, Older Workers: Prospects, Problems and Policies, Ninth Annual Report, Washington, D.C., 1985; and Louis S. Richman, "The Coming World Labor Shortage," Fortune, April 9, 1990, pp. 70-75.

48. U.S. Department of Labor, Employment and Training Administration, Experience Rating in Unemployment Insurance: Some Current Issues, Unemployment Insurance Occasional Paper 89-6, Washington, D.C., 1989, p. 7.

49. U.S. Department of Labor, Experience Rating in Unemployment Insurance, p. 29.

III. THE EMPLOYMENT SERVICE AND DISLOCATED WORKER PROGRAMS BEFORE EDWAA: A DESCRIPTION

During the 1980s there were two Federally-funded programs targeted directly on dislocated workers: Trade Adjustment Assistance (TAA) and Title III of the Job Training Partnership Act (JTPA).

Two other programs -- the Employment Service (ES) and the Unemployment Insurance System (UI) -- were also directly involved in serving dislocated workers. The ES was responsible for assisting dislocated workers in finding new jobs and the UI was responsible for providing benefits to dislocated workers eligible to receive them. Together, the ES/UI systems administered TAA. One difference between the ES/UI systems and JTPA Title III and TAA is that ES and UI are responsible for serving other applicants and claimants in addition to assisting dislocated workers.

This section briefly describes the structure and operations of the ES, TAA, and Title III programs. It provides background information for the discussion of changes that occurred in TAA and Title III programs (Section V) and for the review of program experiences in the 1980s (Section VI).

The Employment Service

The Employment Service (called the Job Service in some states) was established by the Wagner-Peyser Act of 1933 during the worst economic depression in the nation's history. The Act established a nation-wide network of state-operated, federally-financed employment service offices to serve as a labor exchange to match available workers with available jobs. All workers are entitled to use the ES, whether they are employed or unemployed.[1] In the 1982 JTPA amendments to Wagner-Peyser, the states were given more responsibility for planning and administering the ES.

Responsibilities

Since 1933, the federal government has given the Employment Service several added responsibilities. In addition to serving as a labor exchange, the ES presently can be viewed as having four other functions:

- to provide counseling, testing, referral, and other services to complement the labor exchange function;
- to provide special assistance to targeted populations, such as low-income individuals, veterans, and migrant and seasonal farmworkers;
- to provide labor market information needed by governments, industry, and private citizens for making decisions regarding investments in training and education, as well as the formulation of economic development strategies; and

- to administer the "work test" for unemployment insurance, food stamps, and Aid to Families with Dependent Children (AFDC) recipients and to certify individuals who qualify for the Targeted Jobs Tax Credit (TJTC) program.

In conducting the work test, the ES certifies workers' continuing eligibility to receive the benefits for which they are applying (for example, unemployment insurance payments). To be eligible for UI, a claimant must be able to work, available for work, and free of disqualification for causes, such as failure to seek work or refusal to accept suitable employment. While the UI system has the major responsibility for administering the "work test," the ES refers UI claimants to job openings and monitors their work search.

There are variations among states as to how ES and UI offices coordinate the administration of the work test activities. In addition, how strictly the test is administered varies across states and over time as local economic conditions change. (How the application of the work test affects dislocated workers' use of the ES is discussed in Section VI.)

In carrying out the other missions, there also are many variations among the fifty states in administrative policies and procedures and among local ES office work activities. Variations from one state to another reflect differences in the structure of state organizations, the size of the areas served, local labor market conditions, characteristics of ES registrants, administrative style, and the quality of personnel rather than basic program operations.

Funding

Almost all the Federal funds for the basic grants to states that support the ES come from the Federal Unemployment Tax Act (FUTA) and are deposited in an Employment Security Administrative Account (ESAA) trust fund. These funds are used to finance the administrative costs of both the Employment Service and UI programs. The ES currently receives about 97% of its funding from the ESAA trust fund and 3% from general revenues. General revenues include funds from the Veterans Administration for the provision of veterans' services and the U.S. Department of Health and Human Services for conducting the work test for certain Food Stamp recipients.

As a result of the 1982 JTPA amendments to the Wagner-Peyser Act, the formula for distributing ES funds to the states is now based on two factors: two thirds of the funds are based on a state's relative share of the civilian labor force and one third is based on a state's relative share of unemployed individuals. There is also a 3% set-aside to provide stability and additional support for smaller states. Previously, ES funds had been allocated to states on the basis of a complex formula which included staff years, workload projections, and performance.

Also as a result of the 1982 amendments, 90% of the Wagner-Peyser funds allocated directly to the states may be used in a variety of ways: job search and placement services to job seekers; appropriate recruitment services and special technical services to employers; ES program evaluation; and linkages between services funded under Wagner-Peyser and related federal and state legislation. Such funds can also be used to provide services to dislocated workers, including those eligible for TAA; labor market and occupational information;

management information system development and administering the work test for the UI program. The remaining 10% of the Wagner-Peyser funds are reserved by the Governor for performance incentives for the ES, services to groups with special needs, and extra costs of exemplary models for the delivery of services.

The ES experienced a decrease in federal funding in 1982 when the Agency's program budget was reduced by Congress as part of the Reagan Administration's across-the-board cut in federal government spending (from approximately $675 million in 1981 to approximately $610 in 1982). Although funding levels increased somewhat in subsequent years, real (inflation-adjusted) funding declined by almost 7 percent from 1984 to 1987. By 1987, inflation-adjusted funding of the ES was about $640 million. Largely due to budgetary constraints, the number of local offices has declined from about 2,400 to about 1,800 in 1988.[2]

States have responded in several ways to the reduced federal funds for the ES (in inflation-adjusted terms). State Employment Security Agencies (SESA) have curtailed the types, levels, and availability of services provided to job seekers and employers. Many states have accomplished this through staff reductions, office closings, and the curtailment or elimination of some core services. States have also turned to non-federal funding sources, such as state monies and additional state taxes levied on employers. In addition, states have attempted to conserve funds by making increased use of computer technologies and/or by combining their ES, UI, and JTPA operations, both administratively and physically. For example, in some states, the ES does intake, assessment, testing, and referrals to job openings for JTPA. In other states, ES staff are trained to provide UI and JTPA services as well as ES services.

Services Provided

The data given here provide insights into the operations of ES offices and into similarities and differences among states. Table 4 shows the distribution of registrants by "services received" according to a national sample of ES offices and ES offices in two states, Missouri and California.

According to Table 4, operations across states are similar in two ways. First, about 45% of the registrants do not receive a subsequent service. Included among these registrants would be people who must register as part of the work test requirement, but plan to look for jobs on their own.

Second, ES offices consider their basic function to be referring people to jobs: referral to a job was the dominant service provided in the national sample of ES offices and also for California and Missouri. In the case of California, a job referral was the first service provided at, or after, registration to 41% of the ES registrants; for Missouri, the figure was 25%.

Differences across ES offices are seen in the relative emphasis they place on offering a variety of services. This is particularly apparent in a comparison of ES registrants in Missouri and California. Missouri registrants are more broadly distributed across the full range of services than are those in California. For example, 7% of Missouri ES registrants were tested as their first service at, or after, registration, as compared to fewer than 1% in California.[3]

States are also similar in that ES registrants typically receive services quickly -- within the first two weeks of registration. As shown in Table 5, in California slightly over

30% of ES registrants received a subsequent service within the first week of registration and slightly over 40% within two weeks. In Missouri, slightly over 40% received a service within the first week of registration; almost half had received a service within two weeks.[4]

Finally, there are similarities across ES offices in the degree of intensity with which they serve their registrants. According to the data in Table 6, in both California and Missouri, about 25% of the registrants received only one service at, or after, registration, close to 15% received two services, and about 7% received three services. A difference between the states is that Missouri offers five or more of its services to more registrants than California (5.8% compared to 4%).

Trade Adjustment Assistance

Trade Adjustment Assistance was enacted as Part II of the 1974 Trade Act and is administered by the Employment and Training Administration of the U.S. Department of Labor (USDOL). The

TABLE 4

Distribution of ES Registrants by "Services Received"

Services	National Sample (a)	California (b)	Missouri (c)
Total Percent	100.0%	100.0%	100.0%
Referral	30.8	41.4(c)	25.8(c)
Job Search Assistance	na	5.0	8.2
Testing	4.6	0.2	6.9
Counseling	4.2	1.5	1.6
Support Services	4.4	7.0	11.8
Referral to Training	0.2	0.5	1.4
Job Development	11.1	na	na
No Activity	44.7	44.4	44.3

(a)Data are based on 30 Employment Service (ES) offices in 27 states. Approximately 8,000 ES applicants in these offices were interviewed between July 1980 and May 1981. The services received refers to those in the 6-month period following registration. Johnson et al, A National Evaluation.

(b)Data are based on ES records for the period January 1984 through June 1985. The service received is the first service received at, or after, registration. The ES registrants are between 21 and 60 years of age. There were approximately 28,400 registrants in California and 13,500 registrants in Missouri. Carol J. Romero, Donald Cox, and Arnold Katz, The Potential Effectiveness of the Employment Service in Serving Dislocated Workers Under EDWAA: Evidence from the 1980s, National Commission for Employment Policy, Research Report Number 90-04, Washington, D.C., February, 1991.

(c)Referral includes a small percentage (under 0.1%) of claimants whose first activity was listed as "Placement."

TABLE 5

Distribution of ES Registrants Who Received a Subsequent Service After Registration by the Week in Which the Subsequent Service was Received(a)

Weeks Between Registration and Subsequent Service	California	Missouri
Total Percent	100.0%	100.0%
Same Week	31.7	41.1
2nd Week	9.6	5.6
3rd Week	5.8	3.7
4th Week	3.9	2.8
5th Week or Later	49.1	46.8

(a) Data are based on ES records for the period January 1984 through June 1985. The "service received" is the first service received at, or after, registration. The ES registrants are between 21 and 60 years of age. There were approximately 28,400 registrants in California of whom about 15,800 had a subsequent service. There were approximately 13,500 registrants in Missouri of whom about 7500 had a subsequent service. Romero, Cox, and Katz, The Potential Effectiveness of the Employment Service.

TABLE 6

Distribution of ES Registrants by Number of Services Received After Registration(a)

Number of Services	California	Missouri
Total Percent	100.0%	100.0%
None	44.4	44.3
1 Service	25.5	24.4
2 Services	16.3	14.2
3 Services	6.3	6.8
4 Services	3.5	3.9
5 or More Services	4.0	5.8

(a) Data are based on ES records for the period January 1984 through June 1985. The "services received" refers to the number of services received at, or after, registration. The ES registrants are between 21 and 60 years of age. There were approximately 28,400 registrants in California and 13,500 in Missouri. Romero, Cox, and Katz, The Potential Effectiveness of the Employment Service.

program is targeted on a particular sub-group of the dislocated worker population: those who have been dislocated due to increased imports.

Firms that engage in layoffs due to adverse effects of foreign competition apply directly to the Secretary of the U.S. Department of Labor to become "TAA certified." Once certification has been obtained, the affected workers may apply for TAA. This is done through the ES/UI systems at the state level. Although the workers apply at their local ES/UI offices, it is the state offices that determine the TAA services the recipients are to receive.

Two types of services are provided under TAA: cash assistance benefits (Trade Readjustment Assistance [TRA]) and re-employment assistance programs. The cash benefits component of TAA is an entitlement program in the same sense as UI: if dislocated workers meet the eligibility requirement (are TAA certified), they are entitled to receive the cash benefits. Workers receiving UI benefits prior to being TAA certified may shift to TRA. They have up to 210 days to apply for TRA benefits and re-employment assistance programs after they are determined to be eligible.

There are three basic types of re-employment programs: job search assistance, training (such as preparation for a General Equivalency Diploma [GED] or vocational training), and relocation assistance. Dislocated workers may participate in training programs for up to two years.

Title III of JTPA

Title III of JTPA was titled "Employment and Training Assistance for Dislocated Workers" when JTPA was enacted in 1982. Due to the passage of the Economic Dislocation and Worker Adjustment Assistance Act in 1988, which amended Title III, Title III is now often termed "EDWAA." EDWAA became operational on July 1, 1989. Title III/EDWAA is administered by the Employment and Training Administration of the U.S. Department of Labor.[5]

This section briefly describes the original Title III in order to provide a background to changes that occurred due to EDWAA (Section IV) and to set the context for "lessons learned" on serving dislocated workers (Section VI).

Program Eligibility Requirements

Under the original Title III programs, three groups of workers were eligible for assistance. They are persons who:

> 1) have been terminated or laid off or who have received a notice of termination or layoff from employment, are eligible for or have exhausted their entitlement to unemployment compensation, and are unlikely to return to their previous industry or occupation;
>
> 2) have been terminated, or who have received a notice of termination of employment, as a result of any permanent closure of a plant or facility; or
>
> 3) are long-term unemployed and have limited opportunities for employment or reemployment in the same or a similar occupation in the area in which such individuals reside, including any older individuals who may have substantial barriers to employment by reason of age.[6]

People in the first two groups most closely correspond to public perception of dislocated workers, to the definition used in analyses of the survey of dislocated workers undertaken by the Bureau of Labor Statistics (BLS), and to participants in dislocated worker demonstration projects. One difference is that BLS analyses further restrict the dislocated worker population to persons with three or more years of job tenure. Another is that some demonstration projects limited participation to dislocated workers defined along other criteria, such as receipt of unemployment compensation.[7]

In the 1986 amendments to JTPA, the eligibility requirements were expanded to include persons who "were self-employed (including farmers) and are unemployed as a result of general economic conditions in the community in which they reside or because of natural disasters ...."[8] These changes reflected the federal government's desire to assist farmers who had been dislocated (as described in Section I) and self-employed people (such as store owners) who had been forced to close due to a lack of business after a mass layoff or plant closing in their locality.

Funding and Services

Expenditures for Title III programs ranged from approximately $161 million in Program Year (PY) 1984, Title III's first full year of operation, to about $252 million in PY 88, its last year prior to EDWAA. Three quarters of these funds were allocated to states based on a formula that equally weighted the states' relative shares of the nation's unemployed population, the states' relative shares of the nation's long-term unemployed (15 or more weeks), and the states' relative excess unemployed (where excess is greater than 4.5%).

Within states, the Governors had discretion in the methods used for distributing the funds; most states relied upon localities submitting proposals, either solicited, unsolicited, or through a "Request for Proposals" procedure. The law stipulated that to receive Title III funds, a locality had to match the amount with funds from either the private or the public sector.[9]

Title III set a cap of 30% on support services. The law did not set limits on the proportions of funds that could be spent on the various types of employment assistance programs -- for example, job search assistance, preparation for a General Equivalency Diploma, or occupational training.

Program Participants

Table 7 compares the characteristics of dislocated workers (as defined by BLS) with those of Title III program terminees. This comparison is necessarily rough since the JTPA terminees include more groups than are included under the definition of dislocated workers used in this table. For example, dislocated workers include only those who had three or more years of job tenure prior to their dislocation. As noted earlier, eligibility for JTPA Title III programs is not affected by years of job tenure.

Given this caveat, the data suggest that the characteristics of Title III terminees correspond reasonably well to those of the dislocated worker population. While women and minorities are slightly over-represented among program terminees compared to their proportions of the dislocated worker population, this may be due to their being more likely than white males to have been eligible for Title III

TABLE 7

Percent Distribution of Dislocated Workers and JTPA Title III Program Terminees in Program Year 1988 by Selected Characteristics

Characteristic	Eligible Dislocated Workers (a)	JTPA Title III Terminees
Total Number	na	100,600
Gender		
Male	65%	60%
Female	35	40
Race/Ethnicity		
White (excluding Hispanic)	81	75
Black (excluding Hispanic)	11	13
Hispanic	6	10
Other	2	2
Age		
Younger than 22 Years	1(b)	4
22-44 years	62	69
45 Years and Older	38	26
Education		
Not High School Graduate	22	18
High School Graduate or More	78	82

(a)As defined by the Bureau of Labor Statistics (BLS), this estimate represents persons with tenure of three or more years who lost or left a job between January 1983 and January 1988 due to plant closings or moves, slack work, or the abolishment of their positions or shifts.

(b)The BLS data for this category represents 20 and 21 year olds only.

na= Not available

Source: U.S. Department of Labor, Office of Strategic Planning and Policy Development, "JTPA Title IIA and III Enrollments and Terminations During Program Year 1988 (July 1988-June 1989)," Washington, D.C., February 1990.

programs on the basis of long-term unemployment. The under-representation of persons 45 and older among Title III terminees compared to the dislocated worker population may reflect older workers' preference for retiring after dislocation rather than being retrained for another job.[10]

A difference that is not readily explainable is the relatively small share of persons without a high school diploma (18% were in

the program; 22% were in the dislocated worker population). Reasons offered for this under-representation include: their apprehension about participating in remedial or classroom training activities; an inability to meet the minimum qualifications for some training programs; and program operators' screening out workers with less potential for re-employment.[11]

In 1988, both Title III of JTPA and the TAA program under the Trade Act were amended. The next section describes legislative changes in Title III, amendments to the Trade Act, and the Worker Adjustment and Retraining Act (WARN). WARN is a critical adjunct to EDWAA because it mandates early notification of a plant closure or mass layoff. How EDWAA is working, and the role of the Employment Service, are the topics of Section V.

ENDNOTES

1. Unless otherwise noted, this section is drawn from Robert Ainsworth, Improving the Effectiveness of the Employment Service: Defining the Issues, National Commission for Employment Policy, Research Report Number 91-01, Washington, D.C., October 1991.

2. U.S. General Accounting Office, Employment Service: Variations in Local Office Performance, GAO/HRP-89-116BR, Washington, D.C., August 1989, p.11.

3. Differences between the states may reflect any of several factors; for example, there may have been a greater availability of a variety of services in the Missouri ES or there may have been greater differences between the job readiness of the Missouri ES registrants and the types of job vacancies listed with the Agency.

4. These figures are similar to results from the survey of ES offices undertaken in the early 1980s cited in Table 3. "Approximately one-half of the individuals who received a referral within the 6-month time period received their first referral within 1 week of applying to the ES and two-thirds of the individuals received their first referral within 1 month of application." Terry Johnson, et al, A National Evaluation of the Impact of the United States Employment Service, Report prepared for the U.S. Department of Labor, Employment and Training Administration, SRI International, Menlo Park, California, August 1982, p. 82.

5. For a more detailed discussion of Title III, see National Commission for Employment Policy, The Job Training Partnership Act, Report Number 21, Washington, D.C., September 1987.

6. "The Job Training Partnership Act of 1982," Title III, Section 302(a).

7. For example, see U.S. Department of Labor, Employment and Training Administration, New Jersey Unemployment Insurance Reemployment Demonstration Project, Occasional Paper 89-3, Washington, D.C., 1989.

8. The Job Training Partnership Act, Title III, Section 302(a), as amended in 1986.

9. National Commission for Employment Policy, The Job Training Partnership Act.

10. See Paul O. Flaim and Ellen Sehgal, "Displaced Workers of 1979-83: How Well Have They Fared?" Monthly Labor Review, Volume 108, Number 6, June 1985, pp. 3-16; and Marcia C. Jerrett et al, Serving the Dislocated Worker: A Report on the Dislocated Worker Demonstration Program, Abt Associates Inc., Cambridge, Massachusetts, December 1983.

11. National Commission for Employment Policy, The Job Training Partnership Act.

IV. EDWAA, WARN, AND THE TAA AMENDMENTS: A DESCRIPTION

On August 4, 1988, the President signed the Worker Adjustment and Retraining Notification Act (WARN) which mandated large firms to provide advance notice of layoffs to workers affected by plant closures and mass layoffs. WARN became effective on February 4, 1989. On August 23, 1988, President Reagan signed the Omnibus Trade and Competitiveness Act of 1988 (OTCA), which included the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA). This new dislocated worker program amended Title III, the dislocated worker component of the Job Training Partnership Act (JTPA). It became fully operational on July 1, 1989.

OCTA also amended the Trade Act of 1974 which provides Trade Adjustment Assistance (TAA) benefits and services for workers dislocated due to increased foreign competition.

This section describes how the law authorizing employment and training programs for dislocated workers changed due to EDWAA and the TAA amendments. It also describes the Worker Adjustment and Retraining Notification Act. Together, EDWAA, WARN, and the TAA amendments improved the process for providing services to dislocated workers.

It should be noted that services to dislocated workers were available prior to EDWAA, not only under the previous JTPA Title III program, but also through a community action team approach involving voluntary cooperation among management, unions, workers, and the community.[1]

EDWAA and the Way It Changed Title III of JTPA

Highlights of the new dislocated worker program include:

- rapid response capabilities to assist workers before a plant closure or major layoff occurs, including labor-management cooperation to prepare for layoffs;
- authorization of an expanded dislocated worker program which offers the potential for more resources and services, including basic readjustment services;
- a mandated role for sub-state areas -- at least 60% of the state's funds are to be passed down to sub-state areas;
- an emphasis on retraining dislocated workers; and
- improved linkages with the Unemployment Insurance system, the Employment Service, and TAA.

The following is an overview of the key provisions of the new law.

State Plan and Designation of State Agency

In order to receive funds under this Act, Governors must submit a state plan to the U.S. Secretary of Labor detailing the program and activities to be provided. States must also designate an identifiable dislocated worker unit which is responsible for the program at the state level and which has the capability to respond rapidly, on-site to major layoffs or plant closures.

State Council

Under EDWAA, the State Job Training Coordinating Council (SJTCC) membership, established under JTPA, was changed on January 1, 1989 to reflect:

- 30% business (previously 33 1/3%);
- 30% organized labor and community-based organizations (previously no less than 20%);
- 30% state and local government and public agency representatives (previously no less than 20%); and
- 10% general public representation (previously no less than 20%).

The State Councils' responsibilities remain the same under EDWAA. The Councils provide advice to the Governors regarding the use of EDWAA funds, designation of sub-state areas, and methods for allocating and reallocating funds. In addition, they review and approve state and sub-state plans.

Sub-State Grantees

The previous Title III program was administered at the state level and did not include a provision for the designation of sub-state areas. This was changed under EDWAA, which now requires Governors to establish sub-state areas.

As of March 1, 1988, Governors had established sub-state areas following the existing JTPA Title II service delivery area (SDA) system. Although the new law gives automatic designation status to areas having populations of 200,000 or more (the same service delivery area criterion for JTPA Title II), Governors are not required to designate all existing JTPA service delivery areas as sub-state areas.

Entities eligible for designation as sub-state grantees include:

- Private Industry Councils (PICs);
- SDA grant recipients or administrative entities;
- private non-profit organizations;
- units of general local government;
- local offices of state agencies; and
- other public agencies such as community colleges and vocational schools.

These entities, or sub-state areas, are responsible for developing a plan for the local program. This plan must be reviewed and approved by the local elected official (LEO), the Private Industry Council (PIC), and the State Council prior to final review and approval by the Governor.

In nearly all states, an individual or a consortium of JTPA Title II Service Delivery Areas (SDAs) has been designated as the sub-state grantee and administrative entity. In the remaining states, an agency other than a SDA is the grant recipient or administrative entity.[2] This is an important

change because it enables localities to have a greater role in EDWAA, unlike the previous JTPA Title III program which was administered at the state level.

Allotment of Funds

EDWAA changed the allocation of Title III funds in several ways. First, EDWAA requires that a larger proportion of the Federal funds be given directly to the states (80% as compared to 75%).[3]

Second, the formula for distributing the 80% funds was changed to include the number of dislocated workers. Under EDWAA, these funds are allocated to the states based on the following equally-weighted factors:

- relative share of unemployed;
- number of "excess unemployed" (relative number of unemployed individuals over 4.5% unemployed);
- relative number of long-term unemployed; and
- relative number of dislocated workers.

Third, EDWAA changed how Governors may distribute their federal allotment of funds. Under the previous Title III program, there was no provision for allocating these funds to local areas. Governors could determine how local areas received these funds, with most states relying upon localities to submit proposals, solicited or unsolicited.[4]

EDWAA requires a Governor to distribute 60% of these funds to sub-state areas. Fifty percent is distributed at the beginning of the Program Year (PY) based on a formula developed by the Governor. This formula takes into account local areas' unemployment rate and potential for dislocated workers. It must include, but is not limited to, the following six factors:

- insured unemployment;
- unemployment concentrations;
- plant closing and mass layoff;
- declining industries;
- farmer-rancher hardship; and
- long-term unemployment.

An additional 10% is distributed by the Governor to the sub-state areas during the first nine months of the Program Year either by the formula or based on need. These funds cannot be spent on state-wide activities.

The remaining 40% of the state's allocation may be reserved by the Governor for administration, state-wide programs, rapid response activities, and special programs and projects.

The fourth change to Title III eliminated the requirement for matching funds from the private and public sectors as a condition for receipt of Federal funds at the local level.

Finally, a state must spend no less than 80% of its total EDWAA allotment within two program years. If the funds are not spent within this period of time, the U.S. Secretary of Labor may reallocate them to other states. Under the previous Title III program, there was no provision for reallocating unspent funds.

Services Provided with EDWAA Funds

EDWAA places greater emphasis on training services for dislocated workers than the previous Title III program by eliminating basic readjustment services typically associated with the Employment Service (such as job search assistance, including job clubs; and job development) from allowable training activities. It also requires at least 50% of a state's funds be spent for training activities which include on-the-job training, occupational skills training, relocation services, and entrepreneurial training. A sub-state area, however, may request a waiver from the Governor to lower the required 50% to not less than 30% if it can be determined that basic readjustment services are more beneficial to dislocated workers.

Those services for which EDWAA training dollars can not be used must be provided out of the 40% funds that may be reserved by the Governor. Such services include the following state-administered activities:

- **Rapid Response Assistance.** The Dislocated Worker Unit forms a Rapid Response Team at the state level which is comprised of employment and training specialists.[5] Upon notification that a layoff will occur, as mandated by WARN, the Rapid Response Team provides on-site assistance to the affected workers.

- **Basic Readjustment Services.** These are services that assist dislocated workers' return to work (for example, outreach, counseling, testing, job search, job development, and early readjustment assistance).[6]

- **Needs-Related Payments.** Funds may be used to provide payments to eligible dislocated workers who do not qualify, or have ceased to qualify, for unemployment compensation so they are able to participate in education or training services under this program.

- **Coordination With Unemployment Compensation System.** EDWAA funds may also be used to coordinate worker readjustment programs with the Unemployment Insurance system.

- **Labor Management Cooperation.** Funds may be used to promote the formation of labor-management committees which assist in developing appropriate transition activities for workers affected by plant or facility closure.

Not more than 25% of a sub-state grantee's funds can be spent on needs-related payments and supportive services. There is a 15% maximum limit on administration for state and sub-state grantees. An implicit constraint of 10-30%, dependent on a waiver for retraining services, applies for all other activities.

In contrast, there were no spending limitations for employment assistance programs under the previous Title III program. However, there was a 30% ceiling on support services and cost of administration.

Eligibility Requirements

Section III identified the three groups of workers eligible for assistance under the original Title III program and those added as a result of the 1986 amendments to JTPA. Under EDWAA, the eligibility requirements

were further expanded to include ranchers, workers whose jobs were terminated due to substantial layoff, and displaced homemakers.

WARN

The Worker Adjustment and Retraining Notification Act provides that, with certain exceptions, employers of 100 or more workers must give 60 days advance notice of a mass layoff or plant closing to affected workers or their representatives, the State Dislocated Worker Unit, and the appropriate local government. Any employer who orders a plant closing or mass layoff in violation of this Act may be liable for employee back pay and benefits, and subject to a civil penalty as described in the Act.

The purpose of WARN is to provide protection to workers, their families and communities for the unexpected loss of employment. This advance notice provides workers with a transition period so they can adjust to the prospective loss of employment, seek and obtain alternative jobs and, if necessary, enter skills training or retraining for increased re-employment opportunities. WARN requires employers to notify the State Dislocated Worker Unit so that dislocated workers can be promptly assisted under EDWAA. Thus, WARN notification begins the process of assisting workers who will be dislocated.

Amendments To TAA

Several changes were made in the TAA program during the 1980s. First, under the Omnibus Budget Reconciliation Act of 1985, dislocated workers' receipt of cash benefits (Trade Readjustment Assistance [TRA]) was made conditional upon their participation in job search assistance (which did not necessarily have to be funded through TAA). Such a condition had not existed before.

The TAA amendments to the Trade Act of 1974 in the OTCA of 1988 brought further changes. Dislocated workers' receipt of TRA is now conditional upon their receipt of training -- if the training is both feasible and appropriate. Training is considered "feasible" if funds are available (through TAA or JTPA III/EDWAA); it is considered "appropriate" based on an assessment of the needs of the worker and the conditions in the local labor market.[7] Whether or not dislocated workers undertake training, job search assistance is available to them.

A second change was to expand the potential eligibility for TAA to certain oil and gas industry workers.

A third change was the provision for increased shared resources and coordination with other training and employment programs. Program deliverers are encouraged to utilize the provisions in the Act that allow costs for training trade-impacted workers to be shared with funds from other Federal program sources and from state and private sources.

Under the TAA amendments, states are encouraged to establish linkages among TAA, WARN, and EDWAA, and to provide for joint responsibility where there are specific functions common to the three programs. Some of the specific areas where such coordination between TAA and the worker adjustment services may be desirable include:

- utilization of the early intervention services established by the new worker adjustment program to

provide information to workers about these programs;

- utilization of labor-management committees to provide basic information about worker adjustment programs and services to both trade-impacted and other dislocated workers;
- utilization of the state agreement under the TAA program and the state and sub-state plan required under EDWAA, to outline the way the state will coordinate or integrate these programs;
- development of linkages with the UI system which will foster early identification and referral of dislocated workers to adjustment assistance under the TAA and EDWAA programs; and
- provision of training and technical assistance designed to maximize coordination between the programs.

Table 8 presents information on TAA funding and the number of people served under the different types of programs available (including TRA) for Fiscal Years (FY) 1988 and 1989. The data make two

TABLE 8

Funds Appropriated and Dislocated Workers Receiving Services under TAA, Fiscal Years 1988 and 1989(a)

TAA Program	FY 88	FY 89
Funds Appropriated		
Trade Readjustment Assistance	$141 million	$190 million
Re-Employment Assistance	80	80
Numbers of Workers Served		
Trade Readjustment Assistance	46,637 (b)	23,677 (b)
Re-Employment Assistance		
Job Search Assistance	1,157	863
Training	9,695	15,232
Relocation Assistance	1,347	989

(a) FY88 is from October 1, 1987 - September 30, 1988; FY89 is from October 1, 1988 - September 30, 1989.

(b) The number of people who received first TRA payments.

Source: U.S. Department of Labor, Office of Trade Readjustment Assistance, Washington, D.C.

points. First, the emphasis of the program is on the provision of cash benefits to the affected workers. This is indicated by the amount of funds allocated to TRA compared to Re-Employment Assistance programs and by the number of people receiving TRA as compared to those in the re-employment programs. For example, in FY 89, $190 million was appropriated for TRA; $80 million was appropriated for Re-Employment Assistance.

Second, the amendments to TAA contained in OTCA appear to have affected the relative number of people receiving different services in two ways. Between FY 88 and FY 89 the number receiving TRA declined from 46,000 to under 24,000; in part, this decrease may be due to workers' preference for not enrolling in training, a condition for receipt of TRA. In addition, the number of people receiving training increased in both absolute and relative terms. Between FY 88 and FY 89, the number increased from 10,000 to over 15,000 while the numbers receiving job search assistance and/or relocation assistance declined.

ENDNOTES

1. National Association of Manufacturers, When A Plant Closes: A Guide For Employers, Washington, D.C., 1983.

2. SRI International, Study of the Implementation of the Economic Dislocation and Worker Adjustment Assistance Act: Review of State EDWAA Plans and First Quarter Expenditures, First Interim Report, Prepared for the U.S. Department of Labor, Employment and Training Administration, Menlo Park, California, February 1990.

3. The remaining 20% is reserved by the Secretary of the U.S. Department of Labor for special grants and emergency situations.

4. National Commission for Employment Policy, Job Training Partnership Act, Report Number 21, Washington, D.C., September 1987.

5. It should be noted that about 20 states had the equivalent of Rapid Response Teams prior to EDWAA. Duane Leigh, Assisting Displaced Workers: Do the States Have a Better Idea?, The W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 1989.

6. Basic readjustment services are also provided at the sub-state area to workers requiring minimal assistance to become re-employed.

7. Federal Register, "Trade Adjustment Assistance for Workers: Amendment of Regulations," U.S. Department of Labor, Employment and Training Administration, Volume 53, Number 230, November 30, 1988, pp. 48474-48492.

V. EDWAA IN OPERATION

This section describes the role of the Employment Service (ES) in enhancing services to dislocated workers at the state and sub-state areas (SSAs) after the Economic Dislocation Worker Adjustment Assistance Act (EDWAA) became fully operational in July 1989. It includes a review and examination of the following: a) how the key agencies and various provisions of the law promote coordination; b) the extent to which the ES is involved in the coordination and administration of EDWAA services; c) how dislocated workers are being served under EDWAA as compared with the previous Title III program; and d) how ES services to dislocated workers under EDWAA affect the ES's ability to serve non-dislocated workers. (The role of the ES during the transition period is discussed in Appendix A.)

In preparing this section of the report, information was obtained through 60 contacts with state Dislocated Worker Units and other state employment and training officials (see Appendix B), and a review of the 52 state plans (which include Washington, D.C. and Puerto Rico), as well as other literature on the subject.

To develop an initial sense of the role of the Employment Service in providing EDWAA services, contacts were made with state ES and EDWAA officials. These contacts revealed variations in how the states were funding EDWAA services and involving the Employment Service in rapid response and other activities. For example, some states distribute virtually all of their EDWAA funds to the sub-state grantees; consequently, the ES provides rapid response activities and other specialized services for dislocated workers with their Wagner-Peyser funds and/or state dollars. Other states have designated the ES as the State Dislocated Worker Unit to provide rapid response activities utilizing their state's 40% EDWAA funds. Additionally, some states have designated the ES as the grant recipient/administrative entity at the local level for providing services to dislocated workers.

A review of the states' plans -- which were developed at the start of EDWAA's first year of full operation -- provided insights on the various organizational structures. However, these plans often appeared to follow "boiler plate language" rather than indicating a solid, thoughtfully considered plan of administration and operation. This was especially true for those states that had no experience with Rapid Response Teams prior to EDWAA.

Using the state plans as a point of reference, additional contacts were made with state officials to clarify the role of the ES under EDWAA, which were not always thoroughly addressed in the plans. Related literature on the ES and EDWAA was used to supplement the state plans.

Key Agencies and Programs

In order to understand how the key agencies and programs function in promoting the coordination of services to

dislocated workers, it is helpful to recap some of the individual agency and program mandates and responsibilities presented in Section III.

Unemployment Insurance

The Unemployment Insurance program, a bureau of the State Employment Security Agency (SESA), is responsible for processing claims for unemployment insurance (UI) benefits and for fulfilling the UI tax collection function. Because most dislocated workers are eligible for UI benefits, the Unemployment Compensation program is typically the first agency they contact after their layoff.

The Unemployment Insurance program is also responsible for administering the Trade Adjustment Assistance (TAA) program which provides training and assistance benefit payments to workers dislocated due to increased imports. Assistance benefits are paid to these dislocated workers through the UI system, once the U.S. Department of Labor (USDOL) has certified the eligibility of a firm or industry under TAA.

Employment Service

Under Wagner-Peyser, the Employment Service serves employers and applicants, including dislocated workers and special target groups such as veterans, through a federal-state public labor exchange consisting of approximately 1,700 local offices nation-wide. To complement its labor exchange function, the ES provides assessment, counseling, aptitude testing, job search assistance, job development, and labor market information. The ES also assists employers with recruitment of qualified applicants.

In addition, the ES is responsible for a number of non-grant activities and has a role in administering the "work test" for UI, Food Stamp, and Aid to Families with Dependent Children (AFDC) recipients. In conducting the work test, the ES certifies workers' continuing eligibility to receive such benefits thus assuring that employable individuals supported by public funds accept employment when available. (See Section III.) Due to the role the Employment Service has in administering the work test, it is often the second agency dislocated workers contact after their layoff.

The Wagner-Peyser Act, as amended by the Job Training Partnership Act (JTPA) of 1982, stipulates that 90% of the funds allotted to each state may be used for job search and placement services to job-seekers; appropriate recruitment services and special technical services to employers; program evaluation; linkages between services funded under this Act and related federal and state legislation. Such funds may also be used for services to dislocated workers, including TAA; labor market and occupational information; management information system development and administering the work test for the UI program.

Ten percent of the Wagner-Peyser funds allocated to each state are reserved by the Governor to provide performance incentives for the ES, services to groups with special needs, and extra costs of exemplary models for delivery of services.

Additionally, Wagner-Peyser requires the Employment Service to develop a state operational plan which is reviewed and approved by the State Job Training Coordinating Council (SJTCC). The Act also requires the ES to develop local Wagner-Peyser operational plans jointly with Private Industry Councils (PICs) and local elected officials (LEOs).

Job Training Partnership Act

The Job Training Partnership Act is administered at the state and local levels by a state agency which is responsible for Title II (training services for the disadvantaged) and Title III as amended by the Economic Dislocation and Worker Adjustment Assistance Act of 1988.

JTPA Title II authorizes basic training services for economically disadvantaged youth and adults (Part A) and summer employment and training programs for disadvantaged young people (Part B). Title II also provides a description of authorized services, including exemplary programs, funding allocation procedures, limitations on the use of funds, and other program provisions.

Title III authorizes employment and training assistance for dislocated workers. Services provided are training and job placement-related activities. Title III programs could be a third stop for dislocated workers.

Title III of JTPA was amended by the Economic Dislocation and Worker Adjustment Assistance Act. (EDWAA's first full year of operation began on July 1, 1989.) The amendments changed Title III in several ways:

- EDWAA mandated that states establish Dislocated Worker Units to provide rapid response activities and to coordinate services provided by the ES, UI, TAA, and the agencies administering the JTPA Title II program for the economically disadvantaged.

- EDWAA required the Governor to designate sub-state areas for the administration of dislocated worker programs at the local level. The previous JTPA Title III program was administered solely at the state level and did not include a provision for the designation of sub-state areas.

- EDWAA also changed the allocation of Title III funds. First, it requires 80% (rather than 75%) to be given directly to the states based on a funding formula. Second, under previous Title III, there was no provision as to how Governors were to allocate these funds to local areas. EDWAA now requires a Governor to distribute 60% of these funds to sub-state areas as follows:

  - Fifty percent is distributed at the beginning of the Program Year based on a formula developed by the Governor.

  - Ten percent is distributed to the sub-state areas during the first nine months of the Program Year either by formula or based on the areas' needs. These funds cannot be spent on state-wide activities.

  - Finally, the Governor may reserve the remaining 40% of the state's allocation for administration, state-wide programs, rapid response activities, and special programs and projects.

Through its changes in how funds are to be allocated, EDWAA also places greater emphasis on training services for dislocated workers than the previous JTPA Title III program. EDWAA requires at least 50% of a state's funds be spent for training activities. (A sub-state area, however, may

request a waiver from the Governor to lower the required percentage from 50% to 30% if it can be determined that basic readjustment services are more beneficial to dislocated workers.)

The 40% funds that may remain with the Governor can be used for such state services as rapid response assistance, basic readjustment services, needs-related payments, coordination with the Unemployment Insurance program and labor-management cooperation.

Trade Adjustment Assistance

The Trade Adjustment Assistance (TAA) program is targeted on those workers who have been dislocated due to increased imports. The TAA program is administered by the ES and the UI at the state level, however, certification for eligibility is done at the local level. Services provided under TAA are cash assistance benefits and re-employment assistance programs.

Under the TAA amendments of 1988, several changes were made. First, dislocated workers' receipt of Trade Readjustment Assistance (TRA) is now conditional upon their receipt of training -- if the training is both feasible and appropriate. Training is considered "feasible" if funds are available (through TAA or JTPA/EDWAA); it is considered "appropriate" based on an assessment of the needs of the worker and the conditions in the local labor market. Whether or not dislocated workers undertake training, job search assistance is available to them.

A second change was to expand the potential eligibility for TAA to certain oil and gas industry workers.

A third change was the provision for increased shared resources and coordination with other training and employment programs. Program deliverers are encouraged to utilize the provisions in the Act that allow costs for training trade-impacted workers. These costs are to be shared with funds from other Federal program sources and from state and private sources.

Under the TAA amendments, states are encouraged to establish linkages among TAA, Worker Adjustment and Retraining Notification Act (WARN), and EDWAA and to provide for joint responsibility where there are common functions among these programs.

How EDWAA Has Promoted Coordination

To facilitate coordination among agencies, EDWAA mandated the establishment of Dislocated Worker Units and Rapid Response Teams in all states and an increased role for the Private Industry Councils. While EDWAA changed the composition of the membership of the State Job Training Coordinating Councils, it did not change its responsibilities.

Dislocated Worker Unit/ Rapid Response Team

Two major responsibilities of a Dislocated Worker Unit are to coordinate activities among the agencies providing services under EDWAA and to establish a Rapid Response Team.

The Rapid Response Team acts as a catalyst for bringing services quickly to workers who have been notified of a mass layoff.[1] This was the intent of Congress when it mandated that all states provide rapid

response activities through a comprehensive team approach.

Generally, the Rapid Response Team is comprised of employment and training specialists from the ES, UI, JTPA, and TAA at the state and local levels. Representatives from organized labor, not-for-profit organizations, utility companies, and financial institutions may also be included on the Team.

As part of the services provided by the Rapid Response Team, Team members impress upon the workers the importance of using these services and looking for new jobs before the actual layoff occurs. Under the previous Title III program, dislocated workers in many states were faced with a fragmented system which caused them to contact several agencies in different locations for employment and training services. Furthermore, many workers delayed seeking assistance or looking for new employment opportunities, because of a belief that the impending layoff would not occur or, if it did occur, they would be recalled. (Results from past experiences that bear on these findings are given in Section VI.) Through outreach activities by the Rapid Response Team, affected workers are contacted soon after the Dislocated Worker Unit receives a WARN notice. This initial, early contact between the Team and the workers facilitates the worker efforts in seeking services and finding jobs more rapidly.

As noted in the previous section, the Worker Adjustment and Retraining Notification Act (WARN), which requires firms to provide at least 60 days advance notice of a dislocation event to the state Dislocated Worker Unit as well as to the affected workers, is of key importance in triggering rapid response activities.

Usually within 48 hours of receiving a WARN notice, the Rapid Response Team contacts the employer to determine the severity of the plant closure or layoff. The Team then notifies the sub-state grantee and the appropriate agencies of the dislocation. Soon after the initial contact, follow-up communications with the employer are made. A meeting is then scheduled with the employer and employee representatives to determine the appropriate course of action. At subsequent meetings with the affected workers, information is provided on services available by the local ES, UI, and JTPA personnel. Also, initial intake for UI claims may be provided and a worker-needs survey distributed which is used in developing a plan for the provision of services.

In addition to employment and training services, some Rapid Response Teams provide information on: vocational education programs; rent and utility payment assistance; community college professional certification; assistance and counseling to spouses; health services; drug and alcohol rehabilitation counseling; and Food Stamp and AFDC programs. One of the reasons for this broad approach is that in some states plant closures and layoffs occur within companies that are the sole, or major, employer in the area.

Private Industry Council

While the SJTCCs are the focal point for coordination of services at the state level, the Private Industry Councils (PICs) provide leadership at the local level. PICs, in cooperation with local elected officials (LEOs), provide policy guidance, oversight, and monitoring of their JTPA programs.

By enacting EDWAA, Congress recognized the importance of local flexibility in allowing PICs and LEOs to

select those activities which best meet the needs of their community.[2] This was a major change from the previous Title III program which was administered at the state level with little involvement by the PICs and LEOs.

Through its review of ES plans, the PIC is involved with local ES planning. This has the following advantages:

- PIC initiatives to coordinate ES operations with JTPA training activities are popular with local employers because employers support 97% of the costs of the ES through their unemployment taxes (Federal Unemployment Tax Act [FUTA]).
- The ES is a major point of contact between employers and the employment and training community. Therefore, the ES provides employer-access to such programs as on-the-job training (OJT).

State Job Training Coordinating Council

As noted in Section IV, the SJTCC participates in the development of the plan for JTPA-funded activities. This state plan, which serves as the Governor's coordination and special services plan -- and the EDWAA plan for dislocated workers -- includes state-wide goals, objectives, and coordination criteria. The SJTCC also reviews and approves the ES state and local Wagner-Peyser plans and recommends activities and special projects to be provided with the Wagner-Peyser 10% funds reserved by the Governor. These projects may include incentives for ES offices to provide special programs, services for groups with special needs, and exemplary models for the delivery of ES services.

ES Involvement in the Coordination and Administration of EDWAA Services

Many studies of the employment and training system have examined the extent to which duplication exists among agencies and programs providing services to applicants.[3] Duplication occurs because JTPA and the ES are mandated to provide similar services such as intake, assessment, job search assistance, job development, referral, and placement. Duplication also occurs when clients receive the same services from two or more agencies. When more than one agency provides the same services to dislocated workers, administrative costs and the cost of providing direct client services may increase.

EDWAA mandated increased linkages and coordination among the state and local agencies serving dislocated workers in order to reduce duplication of services. However, it did not explicitly specify how coordination should be implemented. Consequently, the Employment Service's involvement and the extent to which it receives EDWAA funds, varies greatly among the states.

Umbrella Agency States

A review of all state EDWAA plans revealed that about 65% of the states had merged existing employment and training departments or created new departments as "umbrella agencies" to link ES, UI, TAA, and JTPA services.[4] (Some of these states had

linked employment and training services prior to EDWAA.) In these states, employment and training programs are administered by one department composed of the agencies responsible for providing EDWAA services. This system is headed by a single administrator who is designated by the Governor and has responsibility for ensuring coordination of all employment and training programs. In such systems, there are significant reductions in the duplication of services among agencies due to the extensive coordination inherent in its organizational framework.

The Employment Service has a major role in the delivery of EDWAA services under an umbrella agency system. In over 40 percent of these states, the Employment Service has been designated as the lead agency in administering all employment and training programs. (Examples of such states are: Arkansas, Idaho, North Dakota, Ohio, Oklahoma, South Carolina, and Washington.) In other umbrella agency states, the ES has an equal role with JTPA in implementing programs.

In a majority of umbrella agency states, the ES has been designated as the Dislocated Worker Unit and/or is in charge of rapid response activities. States in which the ES receives a portion of the state's EDWAA 40% funds for such services include, for example, Arkansas, Georgia, Idaho, Kansas, Kentucky, North Carolina, North Dakota, Oklahoma, Rhode Island, Vermont, and Washington.

To ensure the coordination of TAA with EDWAA, some umbrella states have located the TAA coordinator within the Dislocated Worker Unit. This was done, for example, in Georgia, Kansas, New Jersey, South Dakota, and Washington, to further facilitate the delivery of services. Since TAA eligible applicants are also eligible for EDWAA, this reorganization of staff provides the coordination intended in EDWAA and TAA. Another benefit is the ease with which information is shared among program staff.

Several umbrella agency states have initiated a "one-stop shopping" concept for providing coordinated ES, UI, TAA, JTPA Title II, and EDWAA services at the local level. This was based on the premise that co-location of such services, in conjunction with staff having knowledge of all programs, would provide the most cost-effective, full-range delivery of services and, therefore, reduce duplication. As indicated in a review of the state plans, examples of states providing "one-stop" service centers include Delaware, Idaho, Indiana, Pennsylvania, New Jersey, New York, North Dakota, South Dakota, and Vermont.

There is an ongoing trend toward state governments establishing umbrella agency systems and variations of "one-stop shopping" centers. For example, Rhode Island's legislature recently created a state Department of Employment and Training to consolidate service delivery. In May 1990, South Carolina became an umbrella agency state when JTPA programs were transferred to the Employment Security Commission. Also, New York has established "one-stop" service centers in some of its sub-state areas.

There are three major reasons for this trend toward more coordination among the ES, UI, TAA, and JTPA programs.

- The 1986 JTPA amendments to Wagner-Peyser encouraged improved coordination between the Employment Service and JTPA programs in order to reduce duplication of services. A significant change in JTPA was

bringing ES activities closer to training activities by providing for joint planning between PICs, Service Delivery Areas (SDAs), and the ES.

- Reduced funding (in real terms) of Wagner-Peyser dollars for the Employment Service inspired several states to co-locate, administratively and physically, ES, UI, and JTPA in order to stretch employment and training dollars.

- EDWAA's language encouraging coordination has been a strong catalyst in the trend toward improved linkages among programs serving dislocated workers and other applicants.

The following examples illustrate the ways programs have been coordinated in umbrella agency states.

In Kentucky, the Governor authorized the reorganization and consolidation of all employment and training programs within the state's Department of Employment Security in September 1989 to provide for a more economic, effective, and efficient delivery of services.[5]

Because of EDWAA, Kansas merged ES, UI, and JTPA services. This resulted in a "single point of entry" for dislocated workers. After applying for UI benefits, a dislocated worker is referred to the ES for registration and orientation of EDWAA services. If a dislocated worker first contacts JTPA or ES he or she is provided information regarding the EDWAA program and then is referred to UI. Although this is not a "one-stop" service center, it does provide ease of access to programs.[6] According to the state plans, some other states utilizing this "single point, or common point, of entry" for services include Connecticut and Kentucky.

Since the inception of the JTPA Title III Dislocated Worker Program in 1983, the Arkansas Employment Security Division has served as the Governor's administrative entity for JTPA programs which now include EDWAA activities. "This linkage has proven to be a progressive stimulant towards large realization of the benefits of coordination as they relate to provision of services to dislocated workers."[7]

New Jersey has implemented a policy that has combined the services of both the Employment Service and the JTPA programs "into one seamless delivery system called Jobs New Jersey (JNJ)" at both the state and local levels. "In implementing this effort, the role of the PICs was expanded to include planning and policy for the ES as well as JTPA." In addition to participation in Rapid Response Team activities, UI offices operate an Early Intercept Program, "targeting walk-in dislocated workers for early assessment and re-employment services. Space and access to claimants is made available in UI offices for recruitment by Service Delivery Area and ES staff."[8]

In Pennsylvania, the Employment Service (called the Job Service in this state as well as some others) provides direct placement and job development services to dislocated workers. Continuing a practice that was established prior to EDWAA, "Job Service offices refer dislocated workers in need of training or special assistance to the sub-state grantees or operators of state-wide, regional, or industry-wide projects." Job Service offices also "perform the eligibility certification requirements of EDWAA, without charge, at the request of the Dislocated Worker Unit or the sub-state grantees."

In addition to coordinating service for dislocated workers through Pennsylvania's Job Service offices, services are also coordinated through Job Centers as they are being established across the state. "Job Centers are a network of one-stop locations offering an array of employment, training, rehabilitation, education, welfare and other citizen services."[9]

In response to EDWAA, the Georgia Department of Labor (DOL) designed the "Worker Adjustment Program" which provides comprehensive services to dislocated workers. The Georgia DOL serves as the State Dislocated Worker Unit, and the rapid response activities are the responsibility of the ES Division. In addition, the Job Training, Field Services, and UI Divisions all have a role in this program. Their activities are coordinated through the Deputy Commissioner for Employment and Training.

Also in Georgia, in order to provide comprehensive employment and training services to dislocated workers, local partnerships among programs were expanded by a joint ES and JTPA planning committee formed in each service delivery area (SDA). Members include representatives of the PIC, Job Service Employer Committee, local elected officials, ES staff, JTPA staff, and representatives from organized labor, welfare, vocational education, and economic development agencies. These committees discuss local employment and training needs and the role of programs funded individually or jointly by Wagner-Peyser and JTPA in meeting those needs.

Furthermore, in order to reinforce coordinated local services, Georgia has established a shared placement system. In this system, the SDAs refer job-ready applicants to the ES for placement. Applicants in need of training are referred by the ES to the SDAs. Incentive funds from both sides of the system are available to reward shared placement activities.[10]

The Job Service in Connecticut was designated as the "one entity best equipped to undertake all EDWAA eligibility certification and training referral." Local Job Service representatives are present at each early intervention session to present information about job placement, vocational testing, counseling, and other services that are available. Job Service personnel also perform an initial assessment for eligible applicants as a first step in determining the most appropriate services for workers affected by dislocations.[11]

In Minnesota, with its EDWAA funds, the local Job Service provides readjustment services that exceed services available to the general public under Wagner-Peyser programs, according to the state plan. UI first identifies those eligible for EDWAA services. The Job Service, through a case management procedure, assesses those workers with local transferable skills and assists them in job placement. Those identified as needing more extensive services than are given to the general Job Service client, are assigned to a case manager for testing, assessment, counseling, and the prepatation of an Employee Development Plan (EDP). Those identified as needing basic skills development and/or retraining are referred to the job training office. Upon completion of training, the Job Service places the individual.[12]

Not only does the ES have a major role in EDWAA at the state level in an umbrella agency state, but also some PICs and LEOs have designated the ES as the sub-state grantee and administrative entity.

In the State of South Carolina, through financial and non-financial agreements, the sub-state areas coordinate with local ES offices, other area agencies, and local service providers, for the direct provision of services to dislocated workers. The Employment Service also provides administrative services to the sub-state areas, including coordination of payments and eligibility certification of EDWAA applicants. The ES has been selected as the grant recipient/administrative entity in four of the nine SSAs.[13]

The Governor of Kentucky, through Executive Order, designated 10 of its 28 local ES offices as the grant recipient and administrative entity in 10 SSAs in order to make use of existing ES services and, thereby, avoid duplication.

States in which the LEOs and PICs have designated the ES as the sub-state grantee and administrative entity include: Kansas, in two of its five sub-state areas, Hawaii in two of its four SSAs, Idaho in both of its SSAs, Minnesota in one of its SSAs, and North Carolina, in 21 of its 28 SSAs. In the other seven SSAs in North Carolina, the EDWAA grant recipient subcontracts with the Employment Service for the provision of services.

Non-Umbrella Agency States

In states that do not have an umbrella agency (such as Alabama, Iowa, Mississippi, New Hampshire, Tennessee, Texas, and Virginia), more than one administrator is involved in implementing and administering employment and training programs. This structure is commonly referred to as a "non-umbrella agency." These states vary in the way employment and training agencies interact.

In some non-umbrella agency states, the JTPA agency, utilizing the state's 40% EDWAA funds, has a financial contract with the ES for the provision of services to dislocated workers.

For example, the Governor of Virginia designated the ES as the Dislocated Worker Unit in charge of rapid response activities. Mississippi and Tennessee are examples of states where the ES receives the state's 40% EDWAA funds to provide basic readjustment services. Examples of some of the provisions included in these contracts are: shared staff training and technical assistance; co-location of offices and administrative centralization, where feasible; joint planning and program development; referral and job placement services, including assessment and counseling; and coordination of activities contingent upon availability of administrative funds.

Other types of arrangements that have been made are illustrated through the following examples.

The Tennessee Department of Labor has entered into a financial agreement with the Tennessee Department of Employment Security (TDES) utilizing the 40% funds for identification, eligibility certification, and referral of all EDWAA-eligible claimants. The TDES serves as the common intake point for EDWAA participants. TDES disseminates information on available JTPA services and performs a mini assessment on the claimants, in addition to the completion of eligibility certification documents. Referrals from the TDES is an ongoing service to the 13 sub-state areas.[14]

In Alabama, the PICs and LEOs designated the ES as the grant recipient and administrative entity in two of its three SSAs.

In other non-umbrella agency states, the ES may be indirectly involved with JTPA through interagency cooperative agreements. These agreements describe the role of each agency in coordinating the delivery of UI, ES, TAA, and EDWAA services to dislocated workers. Provisions included in some of these agreements are procedures for: sharing administrative data on EDWAA clients, joint identification and referral of dislocated workers, and regular information exchange. Other procedures include assuring that representatives of the Unemployment Insurance office are an integral part of state and local rapid response teams, joint development of brochures to inform employers and employees of rapid response services, and coordination of activities contingent upon the availability of administrative funds.

Since these interagency agreements are not as binding as financial contracts, what is on paper may not be fully practiced. Contacts with some ES and JTPA officials in such states indicated little coordination exists among programs providing services to dislocated workers. Also, duplication of EDWAA services in these states appeared to be greater.

Services to Dislocated and Non-Dislocated Workers

The Extent to Which Dislocated Workers Are Being Served Under EDWAA Vs. Previous Title III

The state EDWAA plans indicate that the majority of umbrella agency states have implemented a step-by-step process for coordinating services to dislocated workers. It is apparent that the Employment Service is more involved in providing services to dislocated workers under EDWAA than it had been under the previous JTPA Title III program. This was confirmed by direct contact with directors of state Dislocated Worker Units and other employment and training officials.

This improved coordination should result in a greater number of dislocated workers finding jobs more rapidly than under the previous program. It is the general consensus among state officials contacted that EDWAA has already reduced the amount of time dislocated workers are unemployed.[15] (Also see the discussion in Section VI.) However, it is too early to know the full extent to which services to dislocated workers are improved by ES involvement under EDWAA.

While there is favorable feedback from the states regarding benefits of the EDWAA program, some state ES officials were concerned that the decline in Wagner-Peyser dollars and the limited financial support from their state had affected their ability to provide personalized services to dislocated workers. As a result, these states were providing group intake and counseling.

The State of New Hampshire prioritizes dislocated workers according to "most in need" in order to provide customized services. Workers with first priority to services are the least skilled or assembly-line workers. Second priority is given to clerical and lower-level office workers.

EDWAA's mandate that 60% of the state's EDWAA funds be passed down to sub-state areas, at least 50% by formula, was also a concern of some state officials contacted. Under previous Title III, states received 100% of the funds and distributed these funds to the SDAs based on need. It is at the discretion of each state whether the ES

discretion of each state whether the ES receives a portion of the EDWAA state 40% funds to provide services at the state and local levels.

Some state officials expressed a lack of confidence in the funding formula, which is based on past economic events, because it does not provide a good foundation for predicting future dislocations. Since at least half of the EDWAA funds are distributed based on this formula, some state officials believe the money is not being distributed where and when it is needed.

How ES Services to Dislocated Workers Under EDWAA Affect ES's Ability to Serve Non-Dislocated Workers

Since the establishment of the Employment Service in 1933 as a public labor exchange agency, the ES's role has expanded over the years to include responsibilities not directly related to its original mission. Financial resources were not always provided for many of these added responsibilities. Under EDWAA, the ES's role was again enlarged, increasing its involvement in serving dislocated workers. Therefore, one question that needs to be examined more fully as program operators gain experience with EDWAA is: How will services to non-dislocated individuals be affected by increased ES emphasis on dislocated workers?

In considering this issue, some state officials believe the "domino" effect of a closure or layoff can adversely affect other businesses in a small community whose workers are not eligible for EDWAA services. Georgia specifically references this situation in its Worker Adjustment Program Manual when discussing coordination:

> Plant closings and large layoffs typically have an impact on entire communities. This is especially true in smaller towns and rural communities, where one or two businesses may provide the foundation for the community's entire economic base. ... Routine contact will need to be maintained with local economic developers to develop plans for the community's response to a dislocation and to develop strategies for attracting new business to the area.[16]

In some cases large numbers of unemployed workers not eligible for EDWAA services may be concentrated in one area. In such instances, ES could be limited in the services it provides to non-dislocated workers due to a lack of Wagner-Peyser funds and limited financial support from the state. This is especially true in those states where the ES is not receiving a portion of the state's 40% EDWAA funds and its labor exchange responsibilities under EDWAA are viewed as no different than those under Wagner-Peyser. However, in states where the ES is receiving a portion of the 40% funds, ES is better able to serve all applicants.

Conclusions

Three key findings have emerged from this examination of EDWAA. First, as a result of its mandate regarding coordination, the majority of states have given the Employment Service an important role in providing services to dislocated workers. The Employment Service is more involved in providing services to dislocated workers under EDWAA than it was under the previous Title III program. This is true at both the state and local levels. In many

states, the ES administers EDWAA, or has a significant role in providing services, as well as the responsibility for the delivery of services at the sub-state level. In these states the Dislocated Worker Unit is housed within the ES. Furthermore, in some non-umbrella agency states, the ES is the key agency for establishing, coordinating, and implementing EDWAA program activities.

The role of the ES under the new legislation is a result of the Governors' recognition that the agency: provides the basic services many dislocated workers need; has strategically located local offices; is closely linked with the UI program, which has responsibility for TAA activities; and is often the first agency a dislocated worker contacts after applying for unemployment compensation benefits.

A second key finding is that the EDWAA program has been a strong catalyst for improving linkages among programs serving dislocated workers and other applicants. As the legislation intended, EDWAA has facilitated a more comprehensive, less fragmented system for meeting the needs of dislocated workers than had existed under the previous Title III program. By forging closer coordination between the key agencies and programs in most states, much of the duplication in services has been significantly reduced. This is particularly true in those states where an umbrella agency system has been established by integrating the various services available under the ES, UI, TAA, and JTPA programs.

Even in some non-umbrella agency states, coordination of services has been enhanced through financial contracts and written interagency agreements which outlined policies and procedures for the coordination of services to dislocated workers. There are a few states, however, where coordination is almost non-existent between ES and JTPA/EDWAA at the state and local levels.

Finally, dislocated workers are receiving improved services and are being served more rapidly than before. Although the EDWAA program has been operational only since July 1989, it appears that dislocated workers are receiving more comprehensive services than they received under the previous JTPA Title III program. This can be attributed to two major factors: a) the establishment of umbrella agencies by the states and the establishment of "one-stop" service centers at the local levels which provide a full range of comprehensive services, and b) the establishment of Dislocated Worker Units and Rapid Response Teams which facilitate early intervention by agencies providing employment and training services.

ENDNOTES

1. Providing early assistance is important for dislocated workers so that they can find employment before their unemployment insurance benefits are exhausted. Dislocated worker studies have shown that more workers seek assistance when help is available before or at the time of job loss rather than after they have become unemployed. Further, these studies suggest that workers who receive assistance get jobs sooner and earn more than they would have without such help. U.S. General Accounting Office, Dislocated Workers: Labor-Management Committees Enhance Re-Employment Assistance, GAO/HRD-90-3, Washington, D.C., November 1989.

2. These activities may include, but are not limited to, policy guidance, oversight, program review and comment, promoting labor-management cooperation, and providing support for rapid response activities.

3. For example, see Robert Ainsworth, Improving the Effectiveness of the Employment Service: Defining the Issues, National Commission for Employment Policy, Research Report Number 91-01, Washington, D.C., October 1991; and Elaine Brady, Status of Employment Service and JTPA Coordination: 1987 Survey Findings, Special Report prepared for the National Commission for Employment Policy, National Alliance of Business, Washington, D.C., October 1987.

4. These departments are most commonly referred to as the "Department of Labor." Other examples of names given to the umbrella agencies are the "Department of Human Resources," "Department of Labor and Industrial Relations," and "Department of Employment and Training Services."

5. Title III State Plan, July 1, 1990 - June 30, 1992, Commonwealth of Kentucky, May 1, 1990.

6. EDWAA Plan, July 1, 1990 through June 30, 1992, State of Kansas, Department of Human Resources, May 1, 1990.

7. Arkansas Plan for Employment and Training Assistance for Dislocated Workers, PY 89-90, State of Arkansas, April 28, 1989, p. 1.

8. New Jersey State Plan for Employment and Training Assistance for Dislocated Workers, PY 90 and 91, State of New Jersey, May 1, 1990, p. 3.

9. State Plan: Employment and Training Assistance for Dislocated Workers for July 1, 1989-June 30, 1990, Commonwealth of Pennsylvania, May 1, 1989, p.6.

10. State Plan for Programs Under the Job Training Partnership Act:Georgia Partnership for Employment and Training, July 1, 1989 through June 30, 1990, Georgia Department of Labor, (Undated).

11. State of Connecticut: Economic Dislocation and Worker Adjustment Assistance Plan, Program Year 1989, State of Connecticut, April 27, 1989, p. 3.

12. Job Training Partnership Act Title III EDWAA (Dislocated Workers) Substate Plan Instructions, State of Minnesota, Department of Jobs and Training, February 1990.

13. State Plan for Employment and Training Assistance for Dislocated Workers, July 1, 1990 - June 30, 1992, State of South Carolina, May 1, 1990.

14. The State Plan: Economic Dislocation and Worker Adjustment Assistance Act, Program Years 1990-1991, State of Tennessee, May 1990.

15. Because EDWAA has only been operational since July 1989, there is little, if any, empirical evidence to support the opinions expressed by the states. However, their opinions are based on years of experience in providing services to these groups of workers.

16. Worker Adjustment Program Manual, State of Georgia, May 15, 1989, pp. 100-7 and 100-8.

VI. LEARNING FROM EXPERIENCES IN THE 1980s

Programs to assist dislocated workers have the following major goals: to reduce the financial and psychological hardship associated with dislocation and to assist workers in finding new jobs quickly and at a wage level approximately equal to that earned on their previous job. This section addresses the question: What can we learn about achieving these goals under the Economic Dislocation and Worker Adjustment Assistance (EDWAA) Act based on experiences in assisting dislocated workers in the 1980s? Specifically, what can be expected from early intervention, as mandated under EDWAA, in assisting the workers with re-employment? How important is EDWAA's coordination with the Employment Service (ES)? What can be expected from EDWAA's emphasis on training?

As previous sections have shown, EDWAA, WARN, and the Trade Adjustment Assistance amendments substantially changed the delivery of services to dislocated workers. Due to these changes, there are limitations on the extent to which "lessons learned" under previous Title III can be useful in anticipating likely outcomes under EDWAA. However, there is evidence from the 1980s on probable outcomes associated with three important aspects of EDWAA (and the Worker Adjustment and Retraining Notification [WARN] Act which mandates large employees to give 60 days advance notification of mass layoffs and plant closures): advance notification, early intervention, and types of services offered by the Employment Service (ES) and JTPA programs.

To obtain information on these topics two approaches were taken. First, there was a review of results from the dislocated worker surveys conducted by the Bureau of Labor Statistics (BLS) and from the dislocated worker demonstration projects.

Second, the National Commission for Employment Policy undertook new empirical research on the Employment Service in three states, Pennsylvania, California, and Missouri, and a related review of the empirical literature on the effectiveness of the Employment Service. (Appendix C describes the new data bases that were created for this research.)[1] These states are noteworthy because they vary in the way they enforce the "work test" requirement for UI recipients. Pennsylvania does not strictly enforce the work test; Missouri does; and the degree of California's enforcement of the work test is between the other two states.[2]

Enforcement of the work test is important to consider in a review of the effectiveness of the ES in serving dislocated workers because, for several reasons, its strict application can confound statistical results. When the work test is not strictly applied, dislocated workers have a choice regarding the use of the ES: those who use the agency do so because they wish to benefit from its services. The more stringently the work test is applied, the greater the proportion of dislocated workers who must use the ES

services, regardless of their personal preferences. To the extent they would prefer not to use the ES, they may resist the agency's efforts to assist them (for example because they are at the start of their unemployment insurance (UI) benefit period and are not psychologically ready to look for work.) This resistence would tend to dilute the measured effectiveness of the ES.

Also, strict application of the work test has a strong effect on dislocated workers' job search. The most readily employable workers may find work quickly on their own. Individuals who do not find jobs on their own and apply at the ES may be "the more difficult to place," which also would tend to dilute the measured effectiveness of the ES.

Finally strict enforcement of the work test can be associated with relatively ineffective ES services if the agency has resource constraints. To the extent that staff time is devoted to administering the work test, less time is available for the provision of other services.

In addition to taking into account enforcement of the work test, assessments of the effectiveness of efforts (by the ES and dislocated worker programs) to assist dislocated workers requires an understanding of the workers' characteristics and whether the particular services offered match their needs. In this context two characteristics of dislocated workers are key: their attitudes toward their layoff and their expectations for re-employment. These characteristics influence both the likelihood that they will respond positively to offers of re-employment assistance and the speed with which they accept this assistance.

Specifically, dislocated workers may postpone accepting (or refuse) offers of assistance from the ES or other programs for several reasons. First, they may expect to be recalled. Since many of these workers have undoubtedly experienced temporary layoffs in the past, they may find it difficult to accept that "this one" is permanent. This is especially true when only some of the firm's workers are laid off while others continue working. Also, dislocated workers often feel anger and resentment about a layoff and believe they are entitled to receive UI benefits, and should have some time without work for their years of labor. Finally, whether or not (and when) dislocated workers use the offered programs depends upon their expectations of finding work on their own. In turn, their expectations are influenced in part by their locality's economic conditions, as indicated by the unemployment rate. A theme in this section is that there are three factors which influence programs' effectiveness: dislocated workers' attitudes and expectations, economic conditions as indicated by the unemployment rate, and the interaction of economic conditions and dislocated workers' attitudes and expectations.

The Unemployment Rate

Differences in economic conditions over time and across states and localities strongly affect the re-employment prospects of dislocated workers. Table 9 shows the relationship for 1984-1988. It shows the national unemployment rates, the re-employment rates of dislocated workers, and the proportions of JTPA Title III terminees who obtained employment (the Entered-Employment Rate).

As the data indicate, the re-employment rates of dislocated workers improved as the

nation's unemployment rate declined. In 1984, when the unemployment rate was 7.5%, three fifths of dislocated workers were re-employed. When the unemployment rate had fallen to 7%, two thirds of all dislocated workers were re-employed. Re-employment rates differ in a similar fashion across localities with high and low unemployment rates.[3]

Improving economic conditions also affected the re-employment rates of JTPA Title III participants, as shown in Table 9. For example, as the nation's unemployment rate fell over the 1980s, the Entered-Employment Rate increased -- from 65% in 1984 to 76% in 1988.

An evaluation of the Downriver Dislocated Worker Demonstration Project documented the effects of changing economic conditions on program outcomes. Specifically, participants between 1980-81 had higher re-employment rates and earnings than workers who did not participate. However, workers who participated in the project

TABLE 9

Entered-Employment Rate of JTPA Title III Program Terminees, Proportion of Dislocated Workers Who are Re-employed and the National Unemployment Rate, 1984-1988(a)

Outcome	1984	1985	1986	1987	1988
National Unemployment Rate	7.5%	7.2%	7.0%	6.2%	5.5%
Re-Employment Rate of BLS Dislocated Workers	60%(b)	na	67%(c)	na	72%(d)
Title III Entered-Employment Rate	65%	68%	71%	76%	76%

(a)The Entered-Employment Rate is for the program year, which begins on July 1 of that calendar year, through June 30 of the next calendar year; the Unemployment Rate is for the calendar year.

(b)Proportion of workers dislocated between 1979 and 1984 who were re-employed in January 1984. Source: Paul O. Flaim and Ellen Sehgal, "Displaced Workers of 1979-83: How Well Have They Fared," Monthly Labor Review, Volume 108, Number 6, June 1985, pp. 3-16.

(c)Proportion of workers dislocated between 1981 and 1986 who were re-employed in January 1986. Source: Francis W. Horvath, "The Pulse of Economic Change: Displaced Workers of 1981-85," Monthly Labor Review, Volume 110, Number 6, June 1987, pp. 3-12.

(d)Proportion of workers dislocated between 1983 and 1988 who were re-employed in January 1988. Diane E. Herz, "Worker Displacement in a Period of Rapid Job Expansion," Monthly Labor Review, Volume 113, Number 5, May 1990, pp. 21-33.

na=not available

between 1981-83 did not fare better than their counterparts who did not participate. A major reason for this difference appears to be the rise in the area's unemployment rate over this period, from 13% to close to 18%.[4]

Finally, research has documented the effect of economic conditions on the effectiveness of the Employment Service. For example, placement rates of the Pennsylvania ES declined substantially between 1979 and 1983 as the state's unemployment rate rose. This decline in placement rates was found among all people who used the ES as well as among dislocated workers.[5] Also, research on the Missouri ES found that the likelihood that UI recipients who registered with the ES received either a referral or job search assistance depended in part on the economic conditions in local areas. The data indicates that the higher a locality's unemployment rate, the lower the probability that either of these services will be received.[6]

Advance Notification

Section III of this report indicated that as a result of WARN, employers are now mandated to give their workers advance notification of a mass layoff or plant closing. One of the purposes of advance notification is to prepare the workers psychologically for a layoff so they can begin to search for new jobs and be unemployed for only a brief period of time.

There are research findings from the 1980s on the effects of advance notification since several states had advance notification laws prior to EDWAA and WARN. Some states mandated the notification; others strongly encouraged it.[7] In addition, some firms voluntarily notified their employees of a pending layoff or plant closure.

A review of the literature indicates that a major effect of advance notification has been to make the permanency of the layoff "real" to workers. Advance notification appears to be associated with fewer weeks of unemployment <u>after</u> layoff primarily because it increases the probability that some workers find new jobs <u>before</u> their layoff. Among workers who were unemployed after a layoff, those who had received advance notification <u>were not</u> unemployed for shorter periods of time than those who had not received advance notification.[8]

The unemployment rate appears to influence how advance notification affects dislocated workers' re-employment. Some evidence on the relationship between the unemployment rate and workers' re-employment rates is indicated by the data in Table 10.

As shown in Table 10, in 1986, when the unemployment rate was low, the re-employment rate of dislocated workers who received advance notification was higher than that of workers who did not receive advance notification (for example, 73% compared to 70% in 1988). In contrast, when the unemployment rate was high (in 1984), there was no difference in the re-employment rates of workers who received advance notification and those who did not (60%).

These data suggest that when the unemployment rate is low, advance notification can be important to dislocated workers' search for new jobs. However, when the unemployment rate is high -- when job prospects are slim -- advance notification has little effect on the likelihood that the workers will find new jobs.[9]

TABLE 10

Percent Of Dislocated Workers Who Are Re-Employed, By Receipt Of Advance Notice Of Layoff 1986 and 1988 (Low Unemployment Rate Years) and 1984 (High Unemployment Rate Year)

Receipt of Notification	1984	1986	1988
Total	60%	67%	72%
Received Advance Notice	60	69	73
No Advance Notice	60	64	70

Sources:Horvath, "The Pulse of Economic Change"; Flaim and Sehgal, "Displaced Workers of 1979-83"; and Herz, "Worker Displacement in a Period of Rapid Expansion."

Speed of Intervention

As a result of both WARN and EDWAA, advance notification of a mass layoff or plant closure triggers action by the state's Rapid Response Team. The Team provides soon-to-be dislocated workers with information on UI and Trade Adjustment Assistance (TAA), job search assistance (through either the ES or EDWAA), and EDWAA training programs. The purpose of the Rapid Response Team is to help the workers adjust to the layoff and prepare to look for new jobs.

The extent to which early intervention, associated with advance notification, is likely to lead to early re-employment depends heavily on the workers' response to their job loss and to the services offered, as mentioned earlier. Programs designed to hasten re-employment can be of little assistance until workers are ready to accept the assistance.

In the 1980s, dislocated workers appeared to consider the use of training programs as a "backstop," to be used when other ways of finding work had been unsuccessful and their UI benefits were coming to an end. One finding from the Downriver demonstration project was that:

> On average, workers waited approximately sixteen weeks after their layoff prior to enrolling in the [employment and training] program. This observed "waiting time" prior to enrollment suggests that workers searched unsuccessfully for new jobs for some time before seeking assistance.[10]

When the work test was not stringently applied, dislocated workers used the ES in a similar manner. Research on the Employment Service in Pennsylvania found that:

> ... reluctance to use the ES breaks gradually down in an ongoing process as total joblessness -- before and after benefits are exhausted -- is prolonged. Thus, the findings are consistent with the ES serving as a "backstop" source of

> information increasingly relied upon by workers with diminishing financial resources and unsuccessful in other ways of finding jobs.[11]

Making services available to workers early in the dislocation process assists dislocated workers in three ways. First, more workers use assistance when it is available "before or at the time of job loss."[12] Second, when a comprehensive program of services is provided early, the workers re-employment is hastened.[13]

Finally, a less tangible, but key, aspect of early and serious intervention (as provided by Rapid Response Teams) is the cathartic effect that offers of assistance and moral support have on workers who are about to lose their jobs. Explanations of UI and TAA benefits help these workers realize that they and their families will have a source of income after the layoff occurs. Furthermore, explanations of resume writing and training opportunities help people realize that they are qualified for -- or can become qualified for -- new jobs.[14]

One drawback in offering services early in the dislocation process appears to be difficulties that service providers experience in determining the specific services each individual needs.[15] This suggests that an effective early intervention program should have a strong assessment, testing, and counseling component.

If there are delays by workers in the use of either the ES or training programs, the data indicate there are still positive results. For example, participants in the Downriver project -- who waited approximately 16 weeks, on average, before enrolling -- had higher re-employment rates than non-participants.[16] Also, jobless UI recipients in Pennsylvania who waited several quarters before using the ES were subsequently re-employed sooner than those who did not use the ES.[17]

The possibility that workers will delay using programs is quite real, in part, because the unemployment rate also affects the speed with which dislocated workers use the ES and enroll in training. However, the effect is different for the two programs.

- When the unemployment rate is high, dislocated workers' use of the Employment Service is delayed if the work test is not stringently applied. According to research on the Pennsylvania ES, "Evidently, the bleaker the local labor market prospects for finding work, the more pessimistic jobless persons seemingly become of the ES capabilities to assist them."[18]

- When the unemployment rate is low, workers delay enrolling in training programs. According to findings from the New Jersey Unemployment Insurance Reemployment Demonstration Project, many workers preferred not to change occupations and believed they could find jobs on their own. (At the time of the project, New Jersey's unemployment rate was 5%.)[19]

Types of Services

Assessment, testing, counseling, job search assistance, job referrals, on-the-job training, and classroom training are the major services offered to dislocated workers. Of these, training programs are offered by dislocated worker programs. The other activities are available from both the ES and dislocated worker programs. (The ES offers training programs to dislocated workers

who are eligible for Trade Readjustment Assistance.)

Both the ES and dislocated worker programs have been criticized for the services they provide. In the case of the ES, a major criticism has focused on its inability to carry out effectively its labor exchange function, specifically its low rate of direct placements and relatively low wages of the jobs it has listed. For example, one study of the ES in localities with sizeable problems of long-term unemployment reported that only 2% of long-term UI claimants found jobs as a result of ES referrals.[20]

Dislocated worker programs under the original Title III programs of the Job Training Partnership Act (JTPA) were criticized for their heavy emphasis on job search assistance compared to occupational skills training and support services. "While the services provided to Title III participants varied considerably, the predominant service provided was job placement assistance (over 80 percent). Fewer than half of the participants received occupational skill training, and fewer than a quarter received support services."[21]

Partly as a result of such criticisms, the major emphasis under the new JTPA Title III (EDWAA) program is on the provision of retraining and re-employment. As described in Section IV, of the EDWAA funds available to sub-state grantees, 50% must be spent on training unless a waiver from the Governor is approved to reduce the required percent (to no less than 30%). No more than 40% can be used for basic readjustment services, such as testing, counseling, and other forms of job search assistance. If EDWAA funds are not available for these services, the services are offered through the ES, although to varying degrees across states. (See Table 4 in Section III.)

As a starting point, this discussion briefly addresses the question: Does the provision of training (classroom, or on-the-job), compared to job search assistance, assist dislocated workers in finding new jobs and at reasonable wages?

Research findings on this question must be interpreted with caution. Research may indicate that the services are effective and they may, in fact, be effective. Alternatively, it may be that the characteristics of the people receiving the services -- rather than the services -- are responsible for positive (or negative) program outcomes. Multivariate statistical analysis of the effects of programs on individuals' subsequent employment and earnings attempts to address this problem. It adjusts for people's characteristics and then estimates the influence of receipt of a service. However, inevitably there are some characteristics not captured in the data (such as motivation) that could influence the empirical results.

This is an especially important issue in attempts to estimate the effects of ES services on dislocated workers' re-employment due to the administration of the work test. As noted earlier, when it is not applied strictly, dislocated workers who use the ES do so because they wish to benefit from its services. The motivation of these dislocated workers to find new jobs will be similar to that of dislocated workers who enrolled in Title III programs, since use of JTPA Title III programs was also voluntary.

By comparison, when the work test is strictly enforced, it is not possible with available data to identify clearly the effects of ES services on dislocated workers' re-employment for the two reasons noted earlier. First, it is not possible to distinguish between dislocated workers using the ES because they are motivated to do so and those who are required to register with the

ES. The important issue here is that some workers are not "ready" to benefit from ES assistance and for this reason, ES services appear to be ineffective. Simply put, whether or not a job referral leads to a job placement depends in part upon the applicant's interest in accepting the job.[22]

Second, strict enforcement of the work test can have such a powerful effect on dislocated workers' search for work that it obscures the effect of other ES services on re-employment. Among those registrants so motivated, the most job ready tend to find employment on their own, prior to receipt of any services (other than the "push" received via the work test). The least job ready are those remaining for participation in ES services. In this case too, empirical analysis would show ES services to be less effective than they are.[23]

Research on the effects of ES referrals on dislocated workers' re-employment supports these points about the work test. Among workers in Pennsylvania who have received UI for several months and chose to use the ES, referrals reduced the amount of time they subsequently remained without jobs. In Missouri, where the work test is stringently applied, referrals appeared to have no effect on reducing UI recipients' periods of joblessness. In California, which is between the other two states in how stringently it applies the work test, referrals reduced the amount of time men were unemployed, but appeared to have no effect on women's re-employment.[24]

The previous discussions in this section have dealt with workers who have voluntarily chosen to participate in employment and training programs or to use the ES. The information has suggested that workers who receive assistance are re-employed sooner than those who do not receive this assistance.

Additional findings are that dislocated workers who receive assistance have higher earnings than those who do not receive help; however, their earnings at their new jobs are generally lower than they previously had received.[25] One reason for the lower earnings is that the number of relatively high-paying manufacturing jobs is declining.

Tracking dislocated workers for several quarters after their receipt of employment and training services suggests that a major outcome of these programs is to give the workers a "boost" out of their dislocation. Over the long term, the programs do not appear to raise the position of participants over and above that of dislocated workers who were not in the programs. Specifically, findings from the New Jersey Demonstration Project indicate that differences in the amount of time employed and in the amount of earnings disappear over time between dislocated workers who did and did not receive assistance.[26]

The extent to which <u>different</u> services are effective depends not only on the quality of the services, but also on the education and work experience of the participants receiving these services. Participants with different backgrounds are likely to receive different kinds of services. Moreover, the characteristics of program participants are likely to vary depending upon the unemployment rate. Consideration of interconnections between individuals' characteristics and program outcomes is important in interpretations of the outcomes of different services.

Table 11 shows the outcomes of the previous JTPA Title III program -- the Entered-Employment Rate (EER) and the average hourly wage on the new jobs of program terminees -- for the various types of training activities for Program Years (PY)

TABLE 11

Outcomes of JTPA Title III Program Terminees by Type of Training Activity PY88, PY87, and PY86

Outcome and Program Activity	PY86	PY87	PY88
Entered-Employment Rate			
Overall	71%	76%	76%
Classroom Training	70	77	74
On-the-Job Training	89	90	90
Job Search Assistance	64	67	74
Other Services	73	77	63
Average Hourly Wage at Termination			
Overall	$7.26	$7.40	$7.31
Classroom Training	7.46	7.28	7.16
On-the-Job Training	6.56	7.25	6.75
Job Search Assistance	7.47	7.79	7.88
Other Services	7.35	6.97	7.24

Source: U.S. Department of Labor, Office of Strategic Planning and Policy Development, "JTPA Title IIA and III Enrollments and Terminations During Program Year 1988 (July 1988-June 1989)," February 1990.

1986-1988. It indicates first that on-the-job training (OJT) is the activity most likely to result in a placement (the Entered-Employment Rate is 90%). The demonstration projects in the early 1980s also had relatively high OJT placement rates.[27] These results are not surprising since it is likely that employers would offer OJT primarily to those persons whom they anticipated retaining after the OJT had been completed.

Data on average hourly wages from the demonstration projects and for Title III generally indicate that OJT is less likely than other kinds of training to lead to higher paying jobs. For example, as shown in Table 11, in PY 88 the average hourly wage for OJT terminees was the lowest of all the training categories, $6.75. The high Entered-Employment Rates, in combination with the relatively low hourly wages, suggest that OJT is accepted by dislocated workers who want to be employed quickly rather than to engage in extended periods of job search and/or training.

Results on the relative effectiveness of classroom training compared to job search assistance do not lend themselves to such straightforward conclusions, whether reviewing the evidence from demonstration projects or examining data on JTPA Title III outcomes. Results from demonstration projects indicate that at some sites, classroom training was associated with

higher re-employment rates than job search assistance. At other sites the reverse was found.[28]

Data on Title III programs (Table 11) show that the relative positions of outcomes of the activities have changed over time in ways that are associated with declines in the nation's unemployment rate. Specifically, when the unemployment rate was relatively high (1986), classroom training appeared to be more effective than job search assistance in terms of re-employment rates (70% compared to 64%). However, when the unemployment rate was relatively low (1988), the reverse results are found: job search assistance appeared to be more effective than classroom training.

One of the reasons Title III job-search-assistance outcomes improved, compared to those for terminees from classroom training, is likely to be associated with changes in the composition of participants in classroom training and job search assistance. Specifically, when economic conditions were good, job search assistance may have been offered to people who did not require additional training to find employment. However, when economic conditions were poor, people who might not otherwise need additional training to find jobs were enrolled in classroom training.

Evidence on the effectiveness of job search assistance per se is found in research on the Employment Service and from dislocated worker demonstration projects. Results from the demonstration projects indicate that job search assistance is a useful part of programs to assist dislocated workers. As with classroom training, job search assistance has increased the probability of dislocated workers' re-employment, especially when it was offered early in the dislocation process.[29]

The effectiveness of job search assistance provided by the Employment Service is influenced by both the characteristics of the people receiving job search assistance and how stringently the ES applies the "work test." In a situation where an individual's receipt of job search assistance is totally voluntary (Pennsylvania), results are similar to those from the demonstration projects: UI claimants who receive job search assistance early in their period of unemployment find jobs sooner than those who do not receive job search assistance. In a state that strictly applies the work test (Missouri), UI claimants' receipt of job search assistance appears to have no effect on their re-employment.[30]

Taken together, findings on the effectiveness of different employment and training services indicate that in some situations job search assistance may need to be coupled with classroom training. In other situations, job search assistance alone may be sufficient. Which programmatic direction taken will depend upon the education, training, and work experience of the dislocated worker and upon the local unemployment rates. The report from the New Jersey Demonstration Project stated it well: " .... the treatments, particularly the initial mandatory job search assistance services, are appropriate and cost-effective for a broad-range of UI claimants who meet reasonable operational definitions of displacement, but that longer-run, more intensive services are needed for displaced individuals who face major structural dislocations."[31]

Conclusions

Three general conclusions emerge from programs' experiences with dislocated workers during the 1980s. First, permitting programs to be flexible -- to adjust for

economic conditions -- is critical. Depending upon the unemployment rate, different types of assistance may be required. In a locality which experiences a mass layoff, but is otherwise reasonably prosperous, job search assistance may be the dominant strategy to assist dislocated workers in becoming re-employed. By contrast, in a locality which is relatively depressed, retraining may need to be emphasized -- if only because job opportunities are limited.

Second, the likely effects of advance notification and speedy offers of assistance (such as through the Rapid Response Team) on dislocated workers' re-employment can only be suggested from the data presented here. However, it would appear that the actions of the Rapid Response Teams, triggered by advance notification, will be important to dislocated workers. For some, the Team's assistance may speed up re-employment, especially when the unemployment rate is low. For others -- and especially when the unemployment rate is high -- the assistance may prevent a downward psychological spiral that can result from dislocation.

Finally, because job search assistance can be an effective strategy and because EDWAA funds for job search assistance are limited, dislocated worker programs should coordinate closely with the Employment Service. Moreover, evidence from new empirical research on three states and a related review of the empirical literature on the ES supports the conclusion that ES services (such as job referrals and job search assistance) are effective in hastening dislocated workers' re-employment when the workers voluntarily use the Agency's services, such as through the Rapid Response Teams. Since job referrals and job search assistance are offered by both the ES and EDWAA, scarce resources for both are spread further when there is close coordination.

ENDNOTES

1. Carol J. Romero, Donald Cox, and Arnold Katz, The Potential Effectiveness of the Employment Service in Serving Dislocated Workers Under EDWAA: Evidence From the 1980s, National Commission for Employment Policy, Research Report Number 91-02, Washington, D.C., October 1991.

2. To be eligible for UI, a claimant must be available for work, and free of disqualification for causes, such as failure to seek work or refusal to accept suitable employment. For differences among the three states, see U.S. Department of Labor, Employment and Training Administration, Unemployment Work Search Among UI Claimants: An Investigation of Some Effects of State Roles and Enforcement, Occasional Paper 88-1, Washington, D.C., 1988, Table D-1.

3. Among workers identified as dislocated in 1984, those who lived in local areas with low unemployment rates had higher re-employment rates than those who lived in places with relatively high unemployment rates. This finding takes into account other factors affecting dislocated workers' re-employment, such as their education and work experience. Michael Podgursky and Paul Swaim, Job Displacement, Reemployment, and Earnings Loss: Evidence from the January 1984 Displaced Worker Survey, National Commission for Employment Policy, RR 86-18, Washington, D.C., Summer 1986.

4. The Downriver Community Conference Economic Readjustment demonstration project (in Wayne County, Michigan) provided job search assistance, as well as classroom and on-the-job training, to workers dislocated from the automobile industry. Jane Kulik, D. Alton Smith, and Ernst W. Stromsdorfer, The Downriver Community Conference Economic Readjustment Program: Final Evaluation Report, Abt Associates, Cambridge, Massachusetts, May 18, 1984.

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6. Romero, Cox, and Katz, The Potential Effectiveness of the Employment Service.

7. Duane Leigh, Assisting Displaced Workers: Do the States Have a Better Idea?, The W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 1989.

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9. See also Podgursky and Swaim, Job Displacement.

10. Kulik, Smith, and Stromsdorfer, The Downriver Community Conference, p. viii; and also U.S. Department of Labor, Employment and Training Administration, New Jersey

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11. Romero, Cox, and Katz, The Potential Effectiveness of the Employment Service, p. 16.

12. U.S. General Accounting Office, Dislocated Workers: Labor-Management Committees Enhance Reemployment Assistance, GAO/HRD-90-03, Washington, D.C., November 1989.

13. For example, in the New Jersey demonstration project the services were offered 5 weeks after layoff, on average. Participants were on Unemployment Insurance for shorter periods than non-participants and they had higher rates of re-employment. U.S. Department of Labor, New Jersey Unemployment Insurance Reemployment Demonstration Project.

14. For example, see U.S. Department of Labor, New Jersey Unemployment Insurance Reemployment Demonstration Project. This point was also made during a site visit by staff of the National Commission for Employment Policy at General Motors/United Auto Worker dislocated worker project in Linden, New Jersey in March 1990.

15. U.S. Department of Labor, New Jersey Unemployment Insurance Reemployment Demonstration Project.

16. Kulik, Smith, and Stromsdorfer, The Downriver Community Conference.

17. Romero, Cox, and Katz, The Potential Effectiveness of the Employment Service.

18. Romero, Cox, and Katz, The Potential Effectiveness of the Employment Service, p. 16.

19. U.S. Department of Labor, New Jersey Unemployment Insurance Reemployment Demonstration Project.

20. U.S. Department of Labor, Employment and Training Administration, Referral of Long-Term Unemployment Insurance (UI) Claimants to Reemployment Services, Unemployment Insurance Occasional Paper 88-4, Washington, D.C., 1988. It should be noted that this result was not based on multivariate analysis.

21. U.S. General Accounting Office, Dislocated Workers: Local Programs and Outcomes Under the Job Training Partnership Act, GAO/HRD-87-41, Washington, D.C., March 1987, p.3.

22. This point is also made for dislocated worker programs. See Annapolis Economic Research, "Finishing Up with Pride": A Case Study in Early Intervention Assistance for Tennessee Copper Miners, Report prepared for the U.S. Department of Labor, Employment and Training Administration, Annapolis, Maryland, March 1989.

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24. Romero, Cox, and Katz, The Potential Effectiveness of the Employment Service.

25. For example, see U.S. Department of Labor, New Jersey Unemployment Insurance Reemployment Demonstration Project; and Marcia C. Jerrett et al, Serving the Dislocated Worker: A Report on the Dislocated Worker Demonstration Program, Abt Associates, Cambridge, Massachusetts, December 1983.

26. U.S. Department of Labor, New Jersey Unemployment Insurance Reemployment Demonstration Project.

27. Jerrett et al, Serving the Dislocated Worker.

28. Jerrett et al, Serving the Dislocated Worker.

29. For example, see the results in U.S. Department of Labor, New Jersey Unemployment Insurance Reemployment Demonstration Project; and in Jerrett et al, Serving the Dislocated Worker. The report which indicated that the ES has a low direct placement rate (U. S. Department of Labor, Referral of Long-Term Unemployment Insurance [UI] Claimants to Reemployment Services) did not analyze the relationship between the job search assistance the ES provided to UI claimants and the claimants' subsequent re-employment.

30. Romero, Cox, and Katz, The Potential Effectiveness of the Employment Service. Research results for California indicate that UI claimants' who receive job search assistance also have longer periods of subsequent joblessness than those who do not receive this service. It is difficult to believe that receipt of job search assistance leads to longer periods of unemployment. A more reasonable interpretation is that the individuals receiving job search assistance are more likely to have difficulties finding jobs than those who do not receive it. Regressions estimating the probability of receiving job search assistance did not indicate that any particular measured characteristic, such as experience or age, was associated with individuals' receipt of job search assistance. Unmeasured characteristics would seem to be causing this result for California.

31. U.S. Department of Labor, New Jersey Unemployment Insurance Reemployment Demonstration Project, p. 342.

APPENDIX A

The Transitional Period (7/1/88 - 6/30/89)

In September 1988, the U.S. Department of Labor (USDOL) published a notice of proposed implementation plans in the Federal Register. These plans outlined the dates for implementing the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA), Worker Adjustment and Retraining Notification Act (WARN), and the Trade Adjustment Assistance amendments (TAA).

The notice listed the following principles as being critical to the success of EDWAA:

- Broad coverage of the eligible population.
- A broadened delivery system to enhance the program's effectiveness, especially with coordination between Unemployment Insurance (UI), TAA, WARN, and local community groups such as the Chamber of Commerce, labor organizations and others.
- The importance of labor-management cooperation in responding to worker dislocation.
- The need to begin the adjustment process as early as possible with rapid response to worker dislocation as being possibly the single most important element of an effective dislocated worker program.
- The importance of tailoring services to meet the needs of individual workers.
- Improved resource management so that funds are used effectively and in a timely fashion.
- Performance standards that apply to sub-state areas.
- The U.S. Department of Labor's leadership in the form of an increased emphasis upon technical assistance and training and a regular and ongoing exchange of views with the system and with interest groups.

Overall, the USDOL expected that key provisions of EDWAA, including reconstituting the State Job Training Coordinating Council (SJTCC) and sub-state areas, would be completed two to three months earlier than was outlined in the statute so the program would be fully operational on July 1, 1989. The USDOL also emphasized that Governors needed to begin the process for reconstituting the SJTCCs in September 1988 with the new Councils established by November and the State Dislocated Worker Units established by mid-November.

Procedures for designating sub-state areas and grant recipients were published in the Federal Register by the USDOL at the end of September 1988. Sub-state areas were to be established by December 1, with sub-state

grant recipients designated by the middle of the month. By early December, sub-state formula procedures were to be developed as well as procedures for the 10% discretionary grant; by the end of December, information regarding the formula factors was to be finalized. The sub-state formula factors and sub-state plans were to be finalized by the states in March 1989. A review of state plans by the USDOL, and sub-state plans by the states and SJTCCs, was to begin in early April 1989.

Many issues arose as states and Service Delivery Areas (SDAs) began to implement the new program. Included among the issues states had to address were:

- Who should operate the program at the local level?
- What training is most appropriate for those workers not yet laid off; the long-term unemployed; and individuals needing new skills to compete effectively in the job market?
- What new types of training need to be developed?
- How can SDAs, Private Industry Councils (PICs), and Local Elected Officials (LEOs) influence the development of the formula for intrastate allocation?

Decisions Made by the States[1]

During the transitional period, states considered a variety of policy options when developing their EDWAA plans. Some states chose policies reflective of the characteristics of their JTPA Title III programs or individual economies.[2] The basic areas considered were:

- building a sub-state delivery system;
- increasing program accountability;
- ensuring rapid-response capability;
- encouraging labor-management cooperation;
- coordinating with other agencies;
- serving broad segments of the eligible population; and
- encouraging long-term training.

Building A Sub-State Delivery System

Thirty-nine states planned to use their existing Job Training Partnership Act (JTPA) Title II service delivery areas (SDAs) for the EDWAA administrative entities and grant recipients for two reasons: Single-SDA states could not sub-divide their SDA; and other states felt the existing JTPA Title II service delivery system would be the most effective and efficient way to implement EDWAA.

Forty-four states indicated in their plans that they would distribute 60% of their funds to sub-state areas. The majority of these states, however, opted to distribute only 50% of the funds at the beginning of the year and planned to withhold the other 10% for allocation to sub-state areas based on need during the year.

Forty-one states indicated in their plans the weights for the six factors used to develop the sub-state funding formula. On average, the greatest weights were placed on two factors: the number of long-term unemployed and the concentrations of

unemployment. Somewhat lower weights were placed on three other factors: insured unemployed, employment in declining industries, and plant closings or mass layoffs. The least weight was placed on the farmer-rancher economic hardship factor. Only a few states planned to use other factors in their allocation formulas.

The states varied considerably in how they planned to divide the responsibilities between the state and sub-state areas for the EDWAA 40% activities. For example, states planned to: 1) provide basic readjustment services in support of sub-state level programs, outreach, recruitment, and assessment and referral to sub-state grantees; 2) provide services directly through state-wide, industry-wide or regional programs; and/or 3) reserve some or all of their 40% funds for discretionary distributions to sub-state areas.

Virtually all states planned to provide technical assistance to their SDAs, with nearly half of the states indicating specific plans for how they would provide this assistance. Technical assistance would be provided through orientation and training seminars, monthly policy directives, and/or a Dislocated Worker Program Manual, updated periodically.

Increasing Program Accountability

EDWAA placed a greater emphasis on program accountability than did the previous JTPA Title III program by 1) reallocating funds from states that do not spend at least 80% during the current year, and 2) requiring states to operate a monitoring, reporting, and management system, and setting performance standards for their sub-state areas.

There were two basic approaches for monitoring expenditures of the sub-state grant recipients. Some states planned to monitor expenditures only at the end of the year, while other states planned to establish a system of more frequent monitoring for potential re-allocation.

Twenty-three states indicated they would re-allocate funds from those SDAs whose expenditures would be less than 80%. Only four states established a more lenient level of 70%, while 16 states established stricter requirements: re-allocation of funds from sub-state areas that would expend less than 85% or 90% of their funds. The remaining state plans did not address this issue for Program Year (PY) 1989.

States also varied on how they would reallocate unspent funds among their sub-state areas. For example, in some states a sub-state area could voluntarily re-allocate unspent funds by notifying the state that these funds would be given to another sub-state area needing additional funds. In a few states, sub-state areas would be allowed to transfer funds directly among themselves without notifying the state prior to this transaction. In other states, sub-state areas could voluntarily de-obligate funds and return them to the states for re-allocation. Among states that would receive these de-obligated funds such funds would be given to sub-state areas that had met their expenditure requirements or, in contrast, only to sub-state areas requesting additional funding.

In addition to the re-allocation process, a few states planned to use other methods to encourage sub-state areas to expend EDWAA funds. Two states planned to incorporate the previous year's expenditure rates into the allocation formula, and two states planned to establish expenditure rates

as performance standards for sub-state areas.

With regard to states' performance standards policies, the legislation specifies that performance standards are applicable to sub-state areas and that they should include measures related to placement and retention in unsubsidized employment. For PY 89, an Entered-Employment Rate of 64% was established as a federal standard and a Wage-at-Placement performance standard, based on local economic conditions, was encouraged.

All states were required to adopt the Entered-Employment Rate standard. Fewer than half of the states also planned to established a Wage-at-Placement standard. All of these states had established a similar standard(s) for the previous JTPA Title III program. Only a third of the states intended to designate additional performance standards for EDWAA. Some of these states chose the Cost-per-Entered-Employment rate, which the USDOL had encouraged through PY 86 under the previous JTPA Title III program.

Although the USDOL indicated that incentive payments for achieving performance standards was a permissible use of 40% funds, only a few states decided to establish an incentive payment policy. However, nearly half of the states explicitly indicated a policy to sanction sub-state areas for poor performance.

Ensuring Rapid Response Capability

The state plans described various ways states would design their rapid response capabilities. Most states chose to provide rapid response services with EDWAA staff. However, seven states intended to sub-contract this responsibility to another agency or non-profit organization. In nearly all of these cases, the Employment Service (ES) was chosen.

States differed in the extent to which all local agencies would be involved in on-site response activities. In 6 states only state-level staff or the state's sub-contractor would be involved; these states had not established a rapid response capability under the previous JTPA Title III program. A majority of the states planned to respond with both state and/or local level staff and representatives from other local agencies. Three states, however, designated staff from local agencies to provide an on-site response.

While there was some diversity in the various types of participants states chose to be on their Rapid Response Teams, in most states, Rapid Response Teams are characterized by representatives from various state agencies, including ES, UI, agencies that administer the JTPA program, and TAA staff.

Promoting Labor-Management Cooperation

The states' plans included information as to how they would promote labor-management cooperation. All states indicated that they planned to comply with the legislative requirement to add labor representation to the SJTCC. Some states planned to include business and labor representatives on their Rapid Response Team.

Coordinating With Other Agencies

The plans indicated that the majority of JTPA Title II SDAs were chosen as the EDWAA sub-state grant recipients and

administrative entities. Over half of these states chose ES as the state agency to administer EDWAA, as well as UI and TAA. The other states involved the ES and other agencies through written financial or non-financial cooperative interagency agreements. In addition, explicit referral processes were established for dislocated workers in about half the states. Coordination with veterans programs was also frequently mentioned in the states' EDWAA design.

Serving Broad Segments of the Eligible Population

Federal guidelines require the states to specify their policies with respect to displaced homemakers. States have the option of serving displaced homemakers if it will not adversely affect serving other segments of the eligible dislocated worker population. Thirty-four states indicated in their plans that displaced homemakers would be served. Some states required the sub-state areas to certify that serving these individuals would not adversely affect service to other dislocated workers.

Encouraging Longer-Term Training

To encourage retraining for new occupations, sub-state areas must expend 50% of their funds on retraining. In addition, states can provide needs-related payments to dislocated workers during training and/or grant incentives to sub-state areas for providing training of greater duration to those individuals who require it.

Only a few of the states chose to set-aside part of their 40% funds to establish incentives to SDAs for providing longer-term training. States not offering incentives frequently stated limited EDWAA funding as the reason.

During the transition period, a variety of approaches were considered for providing incentives for longer-term training. Some states planned to provide incentive funds to sub-state areas based on the number of individuals receiving long-term training. An alternative approach used by one state was to set aside funds that had been de-obligated. A third alternative was to use state funds for supportive services (for example, medical insurance) that would enable EDWAA enrollees to participate in long-term training.

Twenty-two state plans indicated that needs-related payments would be paid out of the 40% funds. However, some states indicated they would not provide needs-related payments out of these funds and planned to prohibit sub-state areas from providing such payments because EDWAA funds were too limited.

ENDNOTES

1. This appendix is based on: SRI International, Study of the Implementation of the Economic Dislocation and Worker Adjustment Assistance Act: Review of State EDWAA Plans and First Quarter Expenditures, First Interim Report, Prepared for the U.S. Department of Labor, Employment and Training Administration, Menlo Park, California, February 1990.

2. To assist in the implementation of EDWAA, The National Association of Counties along with the National Association of Private Industry Councils, the National League of Cities and the U.S. Conference of Majors held four seminars nation-wide on "Training America's Dislocated Worker". The seminars, conducted in the fall of 1988, were attended by PIC members and elected officials responsible for negotiating with their Governors on sub-state area and grant recipient designation and for establishing and implementing local dislocated worker training programs. The seminars focused on: 1) providing information about the new dislocated worker laws and the impact they would have on states and local areas; 2) assessing an organization's ability to address the needs of dislocated workers and to implement effective programs; 3) describing the methods to develop and implement effective programs; and 4) developing strategies for negotiating with Governors and other partners to develop effective dislocated worker training programs.

APPENDIX B

List of Officials Contacted

The following individuals were contacted by staff of the National Commission for Employment Policy regarding the implementation and operation of the EDWAA program:

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APPENDIX C

Description of the Employment Service Data for Pennsylvania, California, and Missouri

Empirical examinations of the role of the Employment Service (ES) in assisting dislocated workers require extensive data sets. The Pennsylvania data were based on a 5% sampling of the records of individual earnings and unemployment benefits maintained by Pennsylvania's Unemployment Insurance (UI) system. Consolidating these for successive years yielded longitudinal work histories covering the calendar years 1969-87. Information on the workers' use of the ES was extracted from the Employment Service Automated Recording System (ESARS) for a shorter interval, from 1979-87. The primary period covers those years (1979-87) for which data on contacts with the ES were available.

The analysis is based on a 5% sample of workers receiving UI benefits in the Standard Metropolitan Statistical Areas of Pittsburgh and Philadelphia between 1979 and 1987. UI recipients are considered jobless in any quarter in which they were without earnings from covered employers or in which they received unemployment benefits. By definition the analysis is restricted to use of the ES during the first period of continuous joblessness between 1979 and 1987. Information on work experience prior to becoming unemployed is included, for some of the analyses, going back to 1969.

The amount of time the workers were jobless beyond the final quarter included in the analysis is indeterminate. Since the sample is based on first periods of joblessness, the majority of such "incomplete" spells of joblessness are due to workers retiring from the labor force. To avoid statistical problems associated with indeterminant periods of joblessness, persons who were 62 years or older in the final study year were excluded from the sample. Finally, to increase the sample's representativeness of workers dislocated because of structural change, persons were included only if they had at least three years of work experience prior to becoming unemployed and were employed in the quarter immediately prior to applying for unemployment benefits. The final sample consists of 16,470 persons who were either dislocated workers or who had characteristics very similar to those of dislocated workers.

The California and Missouri data were constructed independently from a 5% sampling of 21 to 60 year old individuals who registered with the ES between first quarter 1984 and second quarter 1985. Information on these individuals was obtained from the California and Missouri ESARS Master Applicant Record and ESARS Applicant Transaction Record files.

Several additional steps were taken to obtain the final data for analysis. First, the samples were merged with UI Claims Records. This permitted matching ES registrants with those receiving UI benefits and determinating their benefit payment amounts. An individual was considered to be an active UI recipient if he/she was either identified in the ESARS as a UI claimant or had a benefit year beginning date within 30 days of the ES registration date.

A second merge was then performed with the Employer Base Wage Quarterly Records. The information in these records was used to obtain the individuals' covered work experience. Finally, persons were included only if they had at least three years of prior work experience, were employed in the quarter immediately prior to ES registration, and satisfied the criterion of being active UI claimants. The final samples consist of approximately 28,500 and 13,500 workers for California and Missouri, respectively.

GLOSSARY OF ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
BLS	Bureau of Labor Statistics
CPS	Current Population Survey
DWU	Dislocated Worker Unit
EDWAA	Economic Dislocation and Worker Adjustment Assistance Act
EER	Entered-Employment Rate
ES	Employment Service
ESAA	Employment Security Administration Account
ESOP	Employee Stock Ownership Plan
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
GED	General Equivalency Diploma
JSA	Job Search Assistance
JTPA	Job Training Partnership Act
LEO	Local Elected Official
OJT	On-the-Job-Training
OTCA	Omnibus Trade and Competitiveness Act
PIC	Private Industry Council
PY	Program Year
SDA	Service Delivery Area
SESA	State Employment Security Agency
SJTCC	State Job Training Coordinating Council

STC	Short Time Compensation
SSA	Sub-state area
TAA	Trade Adjustment Assistance
TJTC	Targeted Jobs Tax Credit
TRA	Trade Readjustment Assistance
UI	Unemployment Insurance
USDOL	U.S. Department of Labor
WARN	Worker Adjustment and Retraining Notification Act

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